Austria Sch22	Indonesia Rp3100	Portugal Esc100
Bahrain Din0.650	Israel IS3.50	S.Arabia Rls6.00
Belgium BFr48	Italy L1600	Singapore S$4.10
Canada C$1.00	Japan Y600	Spain Pta125
Cyprus C£0 75	Jordan Fils500	Sri Lanka Rup30
Denmark DKr9.00	Kuwait Fils500	Sweden SKr8.00
Egypt E£2.25	Lebanon L£125.00	Switzerland SFr2.20
Finland Fmk7.00	Luxembourg LFr48	Taiwan NT$85
France FFr6.50	Malaysia Rm4.25	Thailand Bht50
Germany DM2.20	Mexico Pes300	Tunisia Din0.800
Greece Dr100	Morocco Dh6.00	Turkey L500
Hong Kong HK$12	Netherlands Fl3.00	UAE Dh6.50
India Rup15	Norway Nkr8.00	USA $1.00

FINANCIAL TIMES

EUROPE'S BUSINESS NEWSPAPER

No. 30,414 — Monday December 14 1987 — D 8523 A

Japan: Takeshita on a mission to Asia, Page 20

World News | Business Summary

France and UK in talks on nuclear missile

The defence ministers of Britain and France at a meeting in London today will discuss the possibility of the two countries jointly developing an air-launched nuclear missile. Page 20

Protest in Gdansk

Polish police used batons to disperse about 1,000 supporters of the banned Solidarity free trade union who marched in the Baltic port of Gdansk to mark the sixth anniversary of the imposition of martial law, Warsaw opposition sources said.

Election marred

Poor organisation and allegations of vote-rigging marred this weekend's elections in Nigeria, the first since 1983. Page 2

Goldsmith out

Sir James Goldsmith, the Anglo-French financier, has stepped down as chairman of the editorial committee of L'Express, one of France's leading weekly news magazines. Page 3

French aid

The way has been opened by President Mitterrand for France to transform into grants some of its loans to the poorer countries of Africa. Page 3

'Duce' bows out

Mr Giorgio Almirante, 72, secretary of Italy's neo-fascist Movimento Sociale Italiano, bowed out from the leadership. Page 3

Volcker blames US

Lack of economic leadership from the US is aggravating the turmoil in world stock and money markets, Mr Paul Volcker, former chairman of the US Federal Reserve Board, said in Tokyo. Page 4

New Gulf weapon

Iran is using a new weapon or projectile against tankers in the Gulf, regional shipping sources claimed. Page 4

Manila summit

Four South-East Asian leaders flew into fortress Manila for their first regional summit meeting in a decade. The leaders of the six-member Association of South East Asian Nations are expected to concentrate on trade and economic issues. Pages 4 and 20

Nuclear test

The Soviet news agency Tass reported that the Soviet Union conducted an underground nuclear explosion of between 20 and 150 kilotonnes at a testing ground in Kazakhstan. Page 4

Yemeni sentence

A South Yemeni court in Aden sentenced toppled President Ali Nasser Mohammed and 34 of his ministers and senior officers to death after a year-long trial which ended on Saturday. Page 4

Judge faces Senate

Anthony Kennedy, 51, President Reagan's latest choice to fill a vacancy on the US Supreme Court, appears to be headed for confirmation as he begins his Senate hearings today.

Policemen shot dead

Gunmen killed two black South African policemen and wounded four others in Soweto township, near Johannesburg. The gunmen escaped after opening fire on a police vehicle shortly before midnight.

Cha-cha king dies

Enrique Jorrin, 61, considered the father of the cha-cha, died at his Havana home on Saturday. A self-taught violinist, his career peaked in the 1950s when he is said to have invented the rhythmic ballroom dance known as the cha-cha.

Fog shuts autobahn

A West German autobahn was officially closed because of fog for the first time in the history of the no-speed-limit road network.

Afghan offer to UN

Mohammad Younis Khalis, leader of the main Afghan guerrilla alliance, said he would be willing to meet the UN negotiator on the Afghanistan problem, Mr Diego Cordovez, who is expected to visit the region early next year.

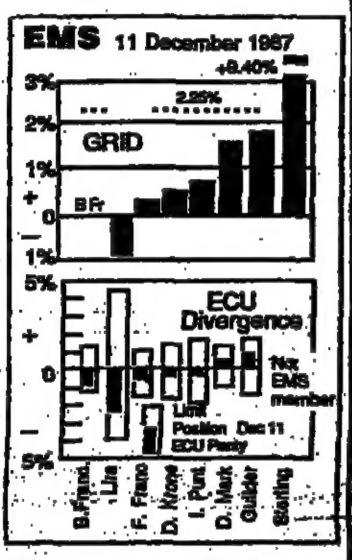
British industry confident after crash

BRITAIN'S manufacturing industry appears confident that it will escape virtually unscathed from the stock market crash and is reporting a further strong improvement in its output and order books. The latest monthly Industrial Trends survey from the Confederation of British Industry does, however, suggest that sterling's recent strength against other major currencies may now be dampening demand for exports. Page 6

EUROPEAN Monetary System: A record US trade deficit and the dollar's fall led to fears of increased pressure within the EMS last week. However, the weaker members, such as the Belgian franc and Italian lira, were still trading comfortably within their divergence limits.

On Friday, West German money market rates were marked down as dealers expected the Bundesbank to maintain a relatively high level of short-term market liquidity and so reduce upward pressure on the D-Mark.

Several central banks were active in a modest way to support the dollar although another decline, widely predicted by many analysts, could revive speculation about a re-alignment.



The chart shows the two constraints on European Monetary System exchange rates. The upper grid, based on the weakest currency in the system, defines the cross-rates from which no currency (except the lira) may move by more than 2¼ per cent. The lower chart gives each currency's divergence from the "central rate" against the European Currency Unit (Ecu), itself derived from a basket of European currencies.

PENNZOIL, the Houston based oil company awarded $10.3bn in damages against Texaco, is expected to file suit this week with an offer to settle the long-running legal dispute for an immediate $3bn in cash. Page 26

VALLOUREC, the French steel tubes producer, is to take full control of the Swedish company Avesta Nyby Powders (Anpab), leading producer of gas-atomised stainless steel and high alloy metal powders. Page 26

WEST GERMAN aerospace group Messerschmitt-Boelkow-Blohm expects to return to profit in 1987 after running up a group net loss of DM104m ($78.19m) last year, the company said. Page 26

JADEMAN (Holdings) shares and warrants trading is expected to resume in Hong Kong today. It was suspended from December 4 after the company's announcement of huge losses in stock investments. Page 26

ALCO STANDARD says it may spin off to shareholders its Triumph group of aerospace companies, as part of its plan to focus on its core businesses of paper distribution, office products and food services. "During fiscal 1988 (ending September 30), we will study the possibility of spinning off this (aerospace) group to our shareholders," Mr Ray Mundt, the company's chairman said. Page 26

LANDIS & GYR, the Swiss electrical engineering concern, reports "gratifying" results for the current year, with earnings up 1 per cent to SFr66.3m ($49.8m) and overall cashflow 10 per cent to a record SFr157m. Page 26

Martens heads for defeat as voters swing to the left

BELGIUM'S centre-right Government appeared to be heading for defeat last night after a marked swing to the left, in yesterday's general election, notably in the south of the country, **writes Tim Dickson in Brussels.**

Mr Wilfried Martens, the outgoing Prime Minister, who has been the dominant figure in Belgian politics since 1979, admitted he was very disappointed by the early results. These showed that his own party, the Flemish-speaking Christian Democrats(CVP), looked like suffering a major setback in Flanders with the Socialist parties, particularly the French-speaking PS in Wallonia, set to gain several seats and hold a clear majority in the southern region.

"We have not had a result which would enable us to say this evening that we will continue. It is likely that I will spend some time in reserve," he said.

It was not immediately clear whether Mr Martens was offering his resignation but it seemed certain that the Socialists would be the dominant bloc in the new Parliament and would be given the first chance by King Baudouin of forming a new Government.

Observers were confident that between them the PS and its Flemish-speaking opposite number the SP would end up being the largest bloc in the new Parliament.

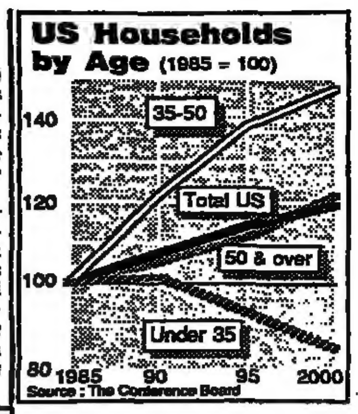
The question for them, however, was whether they could get enough seats to prevent the two Christian Democrat parties(the PSC and the CVP) and the two Liberal Parties (the PVV and the PRL) from holding a majority in Parliament and thus continuing with the present coalition. One early computer projection showed them collecting 108 seats in the Chamber of Representatives, one more than is necessary to have an absolute majority.

Mr Guy Spittaels, President of the PS, said on radio last night that the Socialist were gaining ground but he added, "Let's wait and see".

Many observers felt that the results for the large Brussels constituency could ultimately hold the key.

They stressed that the forecasts were still highly tentative and that in view of Belgium's complicated system of proportional representatiion and its plethora of parties, it could be some weeks before the outcome is clear.

The general election was precipitated in October by the Government's failure to deal with a Francophone mayor who refuses to pass a test in his official local language of Dutch. The "Community" problem, along with the state of the economy, is certain to be one of the main challenges facing the next Government.



Opec wrangle delays extension of current oil production pact

BY RICHARD JOHNS IN VIENNA

AGREEMENT between members of the Organisation of Petroleum Exporting Countries on an extension of their current output-sharing pact was held up yesterday by a wrangle over whether it should be limited to a six-month period.

A futher outstanding issue was Iran's demand that Opec should formally endorse a price of $20 a barrel – which all other members regard as hopelessly unrealistic.

Moves towards a compromise may have been complicated by persistent reports that Ayatollah Ruhollah Khomeini, Iran's 86-year-old revolutionary leader, was close to death. These reports are understood to have been relayed to Mr Gholamreza Aghazadeh, Iran's Minister of Oil, following telephone calls to Tehran on Saturday.

The Iranian Foreign Ministry last night issued a denial that Ayatollah Khomeini, who is known to suffer from heart problems, had already died.

Ayatollah Khomeini, who lives in semi-reclusion, is believed to have suffered two or three mild attacks in recent months and is also reported to have been treated secretly by Western doctors for prostate cancer.

Ali Khalifa Al-Sabah (left) and Hisham Nazar, oil ministers respectively of Kuwait and Saudi Arabia, arrive for the Opec meeting in Vienna

Rumours that the Ayatollah was dying have become increasingly frequent in recent months as his public appearances have become rarer. But visitors, including foreigners, who have met him this year reported that, although evidently weak, his voice was still firm.

Efforts to reach compromise on output levels between Iran on the one hand and Saudi Arabia and Kuwait on the other, were last night being led by Mr Rilwanu Lukman, president of Opec and Nigeria's Minister of Oil, Dr Subroto of Indonesia, and Mr Arturo Hernandez Grisanti, the Venezuelan oil minister.

Market analysts and oil industry observers believe that whatever compromise emerges from this agonised conference it is

Continued on Page 20

Soviet Union and US still split on SDI

BY STEWART FLEMING, US EDITOR, IN WASHINGTON

FUNDAMENTAL disagreements remain between the Soviet Union and the US over the role of Washington's Star Wars Strategic Defence Initiative (SDI), senior Reagan Administration officials said yesterday.

However, this does not necessarily mean that the dispute will be a barrier to an agreement to reduce long-range nuclear missiles by 50 per cent at a Moscow summit next year.

President Ronald Reagan said last week that the communique issued after the summit with Mr Mikhail Gorbachev "resolves" the dispute over SDI.

Asked to explain this apparent contradiction, Mr Howard Baker, the White House Chief of Staff, said yesterday that "it is resolved in the sense that we clearly have preserved our right to do what our policymakers, principally the President, think we must do in the national security interests of the United States and still go forward with the negotiations" for a strategic arms reduction treaty (START).

Mr Baker added that the issue would "undoubtedly come up again."

Mr Reagan underscored his continuing commitment to SDI in his regular Saturday radio address, repeating his pledge that the US "will research it, we will test it and when it is ready we will deploy it." Mr Reagan said he would not sign a START treaty if Moscow tried to "hold it hostage to restrictions on SDI."

The agreement to disagree on SDI has left some strategic experts in Washington deeply disturbed about this aspect of the summit. Senator Sam Nunn, the Democrat who chairs the Senate Armed Services Committee, said on ABC Television that to leave the SDI issue unresolved after the signing of a Start treaty would allow the Soviet Union to retreat from its commitments, on the grounds that the Stars Wars issue remained undecided. He was also concerned that SDI could become a political football on Capitol Hill where specific funding decisions could become hostages.

There was also growing concern yesterday about the failure of the summit to make progress on regional issues, particularly Nicaragua.

A Washington Post report quoting Mr Humberto Ortega, the Nicaraguan Defence Minister, confirming that the Sandinista Government was engaged in a major military build-up, including a doubling to 600,000 of its troops and the acquisition of advanced Soviet MiG fighter aircraft, drew a sharp warning from Lt Gen Colin Powell, Mr Reagan's National Security Advisor.

"I would suggest that it would not be in the interest of US-Soviet relations" for Moscow to introduce advanced weapons into Nicaragua, he said.

Vice-President George Bush, commenting on the report from Managua, confirmed yesterday, however, that Mr Gorbachev had raised the possiblity that Moscow would restrict its sales of military supplies to the Sandinista Government during the summit.

Mr Bush's appearance in a half-hour television interview yesterday will further anger and frustrate his Republican opponents for the party's presidential nomination.

Mr Bush, whose own political fortunes are seen to be tied inextricably with those of the President, is widely seen to have benefitted considerably from the summit.

Polls continue to show strong support for the INF treaty eliminating intermediate nuclear forces signed last week. However, there appeared to be mixed views among Americans on the longer-term significance of the summit.

A Gallup poll published by Newsweek magazine on Saturday showed only 30 per cent of respondents believing it would improve US-Soviet relations "a lot" compared to 60 per cent who said it would improve them "a little."

US baby boomers join the fat cats

By Christopher Parkes in London

THE GREAT baby bubble is about to burst on the US market place.

Almost a nation within a nation, the post-war generation which metamorphosed from brats into beatniks and passed from hippiehood through yuppiedom is all grown up and ready to spend.

There are more than 60m of them, born in the 1940s-1960s birthquake – twice as many as in the preceding 15 years – and now known collectively as the baby boomers.

The US boomers' past may have been traumatic at times, but, according to The Conference Board, a prominent New York market research group, their future is prosperous and assured.

All 60m are moving en masse into "midpassage," the company says, joining the 35-to-50 age-group. And they are laden with college degrees, top jobs, fat salaries and great expectations of themselves...and their parents.

"Never before have so many been destined to inherit so much," says a new Conference Board study, noting in passing that the over-65s in America own 40 per cent of the nation's personal financial assets.

Midpassage, a term lacking the overtones of middle-age and mid-life with their depressing suffixes "spread" and "crisis", is now the time when cares and large amounts of ready cash are cast away.

Up to the age of 35, the study says, US household spending is still modest, matching income and needs. But life changes as the family grows. At age 40 spending on clothes is 45 per cent higher than the average. By the mid 40s, both earnings and expenditure are about a third higher than the mean.

Continued on Page 20

Economic questions face Ceausescu at conference

BY JUDY DEMPSEY IN VIENNA

MR NICOLAE CEAUSESCU, the Romanian President and Communist Party leader, will address the national party conference today against a background of continuing economic difficulties and reports of more unrest in the country.

The party conference, which normally takes place between the five-yearly party congresses, will focus on the economy.

Over the past few months, Mr Ceausescu has criticised sections of the economy, in particular the energy supply sector, and has sacked several ministers for alleged incompetence and mismanagement. Last month consumers were faced with stringent energy saving measures on top of already limited supplies.

Mr Ceausescu's speech, however, will be coloured by recent workers' disturbances in the city of Brasov. Last month thousands of workers stopped work and demanded bread as well as an end to the dictatorship. Since then the leaders of the demonstration have been sacked together with the factory management.

Unconfirmed reports from Romania now speak of fresh disturbances in Timisoara, a university and industrial town on the Yugoslav-Romanian border where students and others recently demonstrated and criticised Mr Ceausescu.

Diplomats in Bucharest have confirmed an incident earlier this month in which tyres filled with petrol were set alight around a statue to Lenin on Piata Scinteia, not far from the centre of the capital.

Meanwhile, in a move designed to placate the workers, the political executive committee, the equivalent of the politburo, met last Friday and granted bonuses to workers. The lowest-paid workers will receive a 15 per cent bonus on top of their normal monthly income while the higher-paid will receive a 10 per cent bonus.

One of the issues which sparked off the Brasov demonstration was related to the reduction in incomes. Over the past two years, wages and salaries have been linked to productivity. If targets were not met, incomes were correspondingly reduced. The decision to pay bonuses suggest the leadership is becoming concerned with the increasing discontent.

British accountants may teach Soviet auditors ways of West

BY PETER MONTAGNON, WORLD TRADE EDITOR, IN LONDON

ERNST and Whinney, the UK accountancy firm, has begun talks with the Soviet authorities about a possible joint venture to introduce Western-style accounting techniques into the Soviet Union.

Mr John Howell, director of Ernst and Whinney's East European division, said Soviet auditing standards needed to be upgraded if joint ventures with Western companies, which have been permitted under new legislation this year, were to flourish.

Initial talks with Inaudit, the Soviet state accounting body, have been "tentative but encouraging in that they have agreed there will be some form of co-operation between Ernst and Whinney and Inaudit," he said. Collaboration could take the form of a formal joint venture or a correspondent agreement allowing for mutual co-opertion between the two bodies.

Western companies have established about 20 joint ventures with the Soviets under the new legislation in areas such as automotive crane manufacture, forestry and the opening of an Indian restaurant in Moscow.

Mr Howell said, however, that little attention had so far been paid to the incompatibility between Western and Soviet accounting practices. The latter, he said, were modelled on 19th century French and Italian book-keeping and were unable to cope with modern concepts such as bad debts, deferred taxation, licensing and leasing arrangements.

The purpose of a co-operation agreement would be to allow Ernst and Whinney to offer accounting services to the Western partners in Soviet joint ventures. As part of the agreement, Ernst and Whinney and Inaudit would also like the firm to service the Soviet partners in such ventures, as well as Soviet enterprises generally.

Ernst and Whinney hopes to negotiate such an agreement next year with Mr Alexander Antonov, president of Inaudit.

Before that, however, it also expects early in the new year to complete talks with the Soviet Foreign Trade Ministry on a separate protocol under which it would advise the growing number of Soviet companies planning to establish subsidiaries in the West.

Under this protocol it would advise on which companies should look at Western subsidiaries as well as on management training. In return it would be appointed auditor of any newly-created subsidiaries in the West, thereby ensuring a flow of hard currency revenue from the service.

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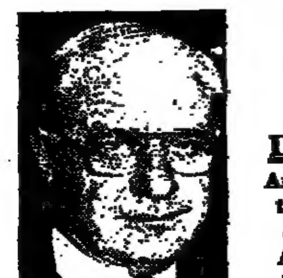


THE MONDAY PAGE INTERVIEW

Anthony Robinson talks to Gerhard de Kock, South African Reserve Bank governor, Page 12

Siemens challenge likely for India power contract

BY JOHN ELLIOTT IN NEW DELHI

SIEMENS of West Germany is expected to submit a tender soon with Bharat Heavy Electricals of India to build the second £350m-£450m stage of Rihand power station. It will be competing against a consortium led by GEC of the UK which had hoped to negotiate the contract, backed by British financial aid, without having to face any rival bids.

The £230m first stage of the coal-fired station in central India is being built by a consortium led by Britain's Northern Engineering Industries. It is 15 months behind original schedules and eight months behind the terms of the contract.

The GEC consortium's bid is likely to be between £350m and £400m and include British aid totalling more than £130m.

Mr Chris Patten, UK Minister for Overseas Development, who visited Rihand last week during a ten-day *visit to India, told Mr* Vasant Sathe, the Energy Minister, that Britain was prepared to offer an aid package of *mixed* financing with grants, soft loans *from the UK Government's* aid for trade provision, and export credits.

The Siemens-BHEL tender has been invited by India's Ministry of Power primarily to act as stalking horse for the GEC offer and provide comparative technical *specifications and prices. Ini*tially, a technical bid will be submitted, probably followed by a financial tender. *This* could become a serious rival to the UK consortium if the West German Government decides to back it with aid.

BHEL is owned by the Indian Government and has technical collaboration arrangements with Siemens. Combustion Engineering of the US, another BHEL col*laborator*, is also likely to be involved.

Northern Engineering Industries has run into a series of problems on the first stage of the *power station. It is consequently* not popular with the Department of Trade and Industry in London *which 10 months ago decided* that GEC should lead the bid for *the second stage. NEI* is to play only a secondary role in the consortium, along with other companies such as Babcock International.

But GEC is about a month late submitting its tender which is now expected to be handed over *within the next few weeks*. The company is also resisting an Indian request to make a full-turnkey contract *offer* to cover the complete power station because it does not want responsibility for the construction as well as the design of civil engineering works.

Mr Patten announced last night he had agreed to advance the *payment of up to* £20m a year of aid which to be spent on slum clearance, education, and other social projects. Along with accelerated aid payments from other countries, this will help offset problems on India's current balance of payments caused by the drought.

He signed a £24m second stage of a *fertiliser education project and a £2m grant for an* Indo-UK trade promotion programme.

Venezuela candidates in debt warning

By Joe Mann in Caracas

VENEZUELA'S two most important presidential candidates have said that the current restructuring programme covering $25bn in government *foreign* debt is *unacceptable, and that they* will seek a new and less onerous repayment scheme.

The candidates are former President Carlos Andres Perez, who represents the ruling Democratic Action Party, and Eduardo Fernandez, *representing the main* opposition group, the Christian Democrat Copei Party.

Both have made foreign debt a major campaign issue. National elections will not be held until December of next year, but representatives of international banks are already worried.

One banker warned that financial institutions abroad may begin withdrawing trade credit lines by the middle of next year in anticipation of a new battle with Venezuelan authorities over foreign debt payments in 1989.

After months of political wrangling at home, the *Venezuelan government* signed a new debt structuring agreement in September.

Under the current plan the Government has a 14-year repayment schedule. Principal payments are scheduled at $250m this year, and $400m in 1988 and $700m in 1989.

However, the presidential candidates and other opponents of the debt scheme say that payments are excessively high, especially in relation to other Latin *American countries, and* that Venezuela has received relatively little fresh money.

US SENATE PASSES SPENDING BILL

Path eased for budget accord plan

BY STEWART FLEMING, US EDITOR IN WASHINGTON

THE US Senate has taken an important step towards implementing the budget accord between the White House and the Congress which calls for $30bn of spending cuts and tax increases in the current 1988 fis*cal year and $75bn of* Federal budget deficit reductions over the 1988 and 1989 fiscal years.

In spite of these projected savings many economists are predicting that the budget deficit will never the less rise in 1988 and 1989 from the $148bn recorded in 1987.

Early yesterday, after 17 hours *of debate, the Senate passed by* 72 votes to 21 a $606bn omnibus spending bill or continuing resolution which provides for the funding of the Federal Government in the current fiscal year which ends in September 1988.

The legislation will now go to a House/Senate conference committee which will seek to resolve differences between the Senate version of the bill and the version of the legislation which has *already been approved* by the House.

One of the major areas of contention in the conference committee is likely to be the issue of aid to the Contra rebels who are fighting the Sandinista Government in Nicaragua.

The Senate bill includes some $9m of aid for the rebels, which will be welcomed by the Reagan *Administration* which aims to keep the pressure on the Sandinistas by continued support for the rebels. The House, where Mr Jim Wright, the Speaker, has been challenging the Administration's policies in Central America in order to promote the regional peace plan, has approved *no* aid for the rebels in its bill.

The Administration's position appears to have been helped by the fact that President Ronald *Reagan and* Mr Mikhail Gorbachev, the Soviet leader, were unable to make any progress on regional issues at *their Washing*ton summit last week.

The leaders did discuss Nicaragua, officals have confirmed.

Reports yesterday, based on an interview with a top official in the Nicaraguan Government who has defected to the US may also *help the Administration*. Major Roger Miranda Bengoechea, a former aide to Mr Humberto Ortega, the Sandinista *Defence* Minister, has said in interviews with US newspapers that the Sandinistas were planning a military build-up.

Even if the House/Senate conference committee makes rapid progress on the spending bill there remains *another major* obstacle to the implementation of the budget accord. The House and Senate are scheduled this week to sit down in a conference committee *to* work out compromises in the tax legislation which is part of the budget deficit reduction package.

The budget package calls for $9bn of new taxes *in the current* fiscal year. There are, however, deep divisions between the White House and Mr Dan Rostenkowski, the powerful chairman *of the* House Ways and Means Committee, on how the revenues should be raised.

Moscow in leasing talks with Airbus

BY LESLIE COLITT IN BERLIN

THE Soviet Union and Airbus Industrie are said to be holding confidential negotiations on a possible leasing to Moscow of several European-built wide-bodied Airbus aircraft for the Soviet airline Aeroflot.

A West Berlin newspaper, Der Tagesspiegel, said *in an article* by its aviation correspondent yesterday that Aeroflot had expressed interest in leasing six Airbus A300s or A310s. The aircraft would be bought by a Western bank consortium and leased to Aeroflot, it said.

The leasing of Western aircraft by Aeroflot would be a break*through for other East European* airlines which have held preliminary talks with Airbus and US aircraft manufacturers. *Hunga*ry's airline, Malev, and Poland's Lot said they urgently needed modern aircraft to replace ageing Soviet aircraft which could not meet the stricter West European noise standards that come into effect on January 1. The Soviet *Union, however, will* not have a new generation of airliners until the early 1990s.

The West Berlin newspaper said East Germany's Interflug wanted to buy three Airbus aircraft. Lufthansa, it noted, would train the pilots of both airlines *on the Airbus*. A *spokeswoman* for Lufthansa said she could not confirm or deny the report.

Deutsche Airbus in Munich refused to comment, noting that Airbus Industrie in Toulouse was responsible for sales.

The article claimed Lufthansa in turn would be *permitted* by the Soviet and East German authorities to fly across East Ger*many into West Berlin on its* daily flight from Frankfurt to Moscow and back. Since 1945 only the airlines of the three Western allies in West Berlin have been permitted to fly between the city and West Germany through three air corridors jointly controlled with the Soviet Union.

Lufthansa said yesterday that the airline had a longstanding desire to fly to West Berlin. The newspaper , however, noted that the sale of Airbus *aircraft to the Soviet Union* and East Germany and Lufthansa flights into West Berlin could become part of the negotiations *which* the three *Western* allies said they were preparing to offer Moscow.

The US, Britain and France *said last Friday they would* propose talks with Moscow on improving the situation "in and around Berlin" and improving East-West relations.

Turkey clinches 'model' deal

BY DAVID BARCHARD IN ANKARA

Turkey yesterday clinched the first ever "Ozal model" power plant deal when a contract was signed between the Turkish Government and a consortium led by Seapac of Australia. The deal is likely to be a prototype for similar *infrastructural* deals in developing countries.

The Ozal model, named after Prime Minister Turgut Ozal, is designed to allow companies to build and operate a scheme for a number of years before selling it to the Government.

*The two sides signed an imple*mentation agreement covering all major issues of principle in the project, which involves setting up a joint venture to build and operate a 1,400MW power plant at Gazi on the Turkish Mediterranean coast.

The Gazi power plant is likely to have a considerable regional impact as it comes with a deep water port *capable of carrying* vessels of up to 300,000 tonnes and with a 10m tonne stockpile of Queensland coal, of which only 3.5m tonnes will be consumed by the power plant.

Annexes to the agreement signed yesterday are said to *cover* all key policy issues including the energy tariff, the capital cost, and the cost of the coal.

The agreement will be referred for ratification to export credit agencies in the countries of the consortium members, including Australia, Japan, and the US. Commercial finance for the project is said to be in place.

A final contract is to be drawn up and signed in mid-January and will be completed before Mr Ozal pays an official visit to Australia at the end of that month.

The role of the Queensland government in the deal has yet to be clarified. The Seapac project was strongly identified with the outgoing Queensland Prime *Minister Sir Joh Bjelke Petersen.*

Diaspora Jews hit at Israel

By Andrew Whitley in Jerusalem

THE RIFT between Israel and Diaspora Jewry widened perceptibly last week following the drafting by the World Zionist Congress here of a series of resolutions critical of Israeli government policies and actions.

Under strong pressure from the US *delegation*, a congress committee adopted a remarkably outspoken resolution calling on the Government to withdraw from the occupied Arab territories and negotiate peace through an international conference.

Another resolution condemned the *stranglehold over* Israeli life maintained by the right-wing Orthodox Jewish rabbinate, with the support of successive Israeli governments. Instead, Jewish leaders declared, there should be complete equality for all streams of Judaism.

In *its* final version, the "peace resolution" was watered down considerably to avoid a fight which would have done serious lasting damage to the Zionist movement worldwide. But the message to Jerusalem that Diaspora Jews were tired of being milked *for* funds to support Israel, without having the right to inject their opinions, had been registered.

The venerable World Zionist Organisation, a precursor of the Jewish state with roots dating back to the late 19th century, has fallen into disrepair in recent years and is much criticized in Israel. Together with a *sister organisation, the Jewish* Agency, it acts almost as a parallel government, with powerful office holders for such functions as settlement activity, fund raising and immigration.

A 10-year dominance of the two organisations by their veteran chairman, Mr Arye Dulzin, ended last week with the election as his successor of Mr *Simcha Dinitz, an Israeli Labour par*liamentarian and former ambassador to the US.

Renault's fate in the balance

BY PAUL BETTS IN PARIS

THE FUTURE of Renault hangs in the balance this week as the controversial debate in Parliament on legislation concerning the state-owned car group's future status and its FFr12bn(£1.2bn) balance sheet restructuring reaches a climax.

The Communist party is trying to turn the debate into a showdown with *Mr Jacques Chirac's* Government and torpedo the bill by tabling 3,500 ammendments.

Unless the Government turns the issue into a confidence motion, thus *cutting* short the debate, the bill is unlikely to complete its parliamentary process before the end of the session this month. It would then risk being put on the shelf since this parliamentary session is the last before next spring's presidential election.

The Government could attempt to push through the legislation by holding an extraordinary session of Parliament to approve it. However, the Government is already holding one extraordinary session next month to consider legislation on political party financing, and *is* likely to be extremely reluctant to hold another for the Renault bill.

Mr Raymond Levy, the *Renault chairman, yesterday* emphasised the crucial challenges facing his group and hardly disguised his company's concern about the fate of the bill.

The special legislation is designed to change Renault's privileged status as a state-owned *regie* and turn it into an ordinary state-controlled group.

To enable Renault to change this special status, which has protected it from bankruptcy up to *now, the Government plans* to write-off FFr12bn worth of the company's debts, allowing the balance sheet to be restructured.

The Government's move follows the successful restructuring of the car group over the past three years. Renault is expected *to make a profit of more* FFr3bn this year after losses totalling FFr27bn during the previous three years. But even after the large debt write-off, its balance sheet will continue to be burdened by nearly FFr40bn worth of debts.

If the new legislation is not approved, Renault fears its future will be left hanging in the balance at a time when it wants to consolidate the efforts of the past few years.

Violence mars polling in Nigeria

POOR organisation and allegations of vote-rigging marred this weekend's elections in Nigeria, the first since 1983, agencies report from Lagos.

The National Electoral Commission began receiving scattered returns from the elections yesterday, but remained locked in a discussion on whether to void voting marred by violence, alleged fraud and electoral malpractices.

National television reported numerous incidents in Lagos and other urban areas.

Turnout was high, despite poor preparation. Organisers were given only three months to register voters, yet about 15,000 candidates and conduct elections in *a huge country with* atrocious communications.

"It's most likely that in some places the elections will be held again," Mr Eme Awa, chairman *of the National Electoral Com*mission's said on national television. "The signs are that in some places the electorate has not been given a chance to express its wishes."

Even before the national commission announced a decision, the News Agency of Nigeria reported that an election official in Borno state, in the north-east of the country, had voided the voting in two areas.

Bonn to tighten laws covering demonstrations

By David Marsh in Bonn

THE West German cabinet on Wednesday will sharpen public order *legislation governing* demonstrations after a vote by the liberal Free Democratic Party (FDP) to back the tougher line favoured by the conservative coalition parties.

FDP delegates at a special party conference in Mannheim decided by 210 to 185 that the wearing of masks by demonstrators should be a criminal offence rather than, as present, simply an infringement of civil order regulations.

The vote came in the wake of massive pressure on the FDP from the senior conservative parties in the coalition to clamp down on demonstrations after the fatal shooting of two policemen by anarchist demonstrators near Frankfurt airport last month. The affair has been a further test of the cohesion of Chancellor Helmut Kohl's coalition.

Mr Kohl's Christian Democratic Union (CDU) called the FDP decision "sensible". But the Bavarian conservative party, the Christian Social Union (CSU), made clear that it wanted to give police still further powers against left-wing radicals whose protests against authority have led to a surge in violence at demonstrations.

French move to write off some loans to Africa

BY GEORGE GRAHAM IN PARIS

THE WAY has been opened by President Francois Mitterrand for France to transform into grants some of its loans to the poorest countries of Africa, while insisting that negotiations should be carried out case by case.

Speaking at this weekend's Franco-African summit in Antibes Mr Mitterrand said that France had in effect already reached this result by permitting delay after delay in debt repayments. But he accepted that his country "should be able to abandon a certain number of loans for the poorest countries, threatened with a fatal haemorrhage by the constraints of their debt payments."

He was reacting to the demand by President Mobutu Sese Seko of Zaire that France follow Canada in transforming a number of its loans to sub-Saharan Africa into gifts. Mr Mobutu also put forward the African Development Bank proposal for the transformation of debts into bonds of at least 20 years maturity.

The French Government, which hosts the Paris Club of creditor nations for the rescheduling of official debt repayments, has traditionally opposed outright debt forgiveness. Officials argue that such a move would damage the credibility of the debtor countries and cut them off from access to further finance.

Some African countries asked for their debt repayments to be rescheduled over 50 years, with a grace period of 10 years before repayments start. The Paris Club has only this year begun to reschedule the poorest countries' debts over periods longer than 10 years.

President Mitterrand accepted in principle the recent Organisation for African Unity call for an international conference on the debt problem to take place next year. He said France would continue to voice African concerns to its industrial partners.

France was the leading supplier of aid to sub-Saharan Africa last year, with $1.5bn of loans and grants disbursed.

Norway police to probe bonds resale overseas

By Karen Fossli in Oslo

NORWAY'S Banking, Insurance and Securities Commission has turned over to Norwegian police for criminal investigation a case involving what may be the illegal resale abroad of more than NKr4bn ($344m) worth of domestic Treasury bonds.

The bonds were resold outside Norway between November 1984 and July 1985, in violation of a 1984 ban which allows only foreign insurance companies to make such a purchase. However, insurance companies needing "technical reserves" to protect their requirements for Norwegian currency are allowed to purchase the bonds if they secure a special licence from the Norwegian Central Bank. But these bonds must be held in Norway.

In autumn 1984, several foreign insurance companies exercised their right to purchase when they needed exceptional reserves. Norwegian brokers handled the transactions and police have now been asked to establish whether there was an organised export of bonds.

According to the Commission's report, most of the bonds were resold within 14 days of purchase to other foreign investors, giving the sellers a 3 to 4 per cent profit.

Norway's domestic bonds are attractive to foreign investors because of their high yields of up to 12 to 14 per cent.

Goldsmith to step down from L'Express

By Paul Betts in Paris

SIR James Goldsmith, the Anglo-French financier, has decided to step down as chairman of the editorial committee of L'Express, one of France's leading weekly news magazines.

The decision came as a surprise because Paris had been buzzing with rumours in recent weeks that Sir James was contemplating buying back control of the news magazine. Sir James was also reported to be considering investing in Le Quotidien de Paris, a Paris daily newspaper.

Until last summer, Sir James controlled l'Express through his main French company Generale Occidentale.

Although he sold his controlling stake in GO last July to the Compagnie Generale d'Electricite, the large privatised French telecommunications and heavy engineering group, Sir James remained chairman of the magazine's editorial committee.

By suddenly deciding to step down from the editorial committee of L'Express, Sir James has again confounded French business circles. The magazine simply said that Sir James had decided to leave the committee because he planned to be absent from France for several months.

WORLD ECONOMIC INDICATORS
UNEMPLOYMENT

	Nov.'87	Oct.'87	Sept.'87	Nov.'86
USA 000's	7,116.0	7,174.0	7,089.0	8,243.0
%	5.9	6.0	5.9	6.9
1				
	Oct.'87	Sept.'87	Aug.'87	Oct.'86
W. Germany 000's	2,092.7	2,107.1	2,164.6	2,026.3
%	7.6	7.7	7.9	7.4
France 000's	2,697.2	2,673.6	2,574.9	2,668.4
%	11.5	11.4	11.0	11.4
Italy 000's	3,328.0	3,326.0	3,262.0	3,217.2
%	14.3	14.3	14.0	13.9
Netherlands 000's	683.2	687.1	694.1	696.0
%	11.9	12.0	12.1	13.0
Belgium 000's	510.7	515.6	517.8	540.0
%	12.4	12.5	12.6	13.1
U.K. 000's	2,751.4	2,870.2	2,865.8	3,237.2
%	10.0	10.5	10.4	11.8
Japan 000's	1,620.0	1,660.0	1,660.0	1,610.0
%	2.6	2.7	2.7	2.6

Source: (except US, UK, Japan) Eurostat

SHIPPING REPORT

Lull in Gulf business as Opec confers on prices

BY KEVIN BROWN, TRANSPORT CORRESPONDENT

THERE was a lull in the Middle East Gulf last week as owners and charterers awaited the outcome of the price-setting meeting of the Organisation of Petroleum Exporting Countries.

Brokers said reports from the Opec meeting tended to indicate that there would be continuing disarray among the producers, leading to cautious chartering and a probable easing of rates in the short to medium term.

Demand fell substantially in the Gulf during the week, and rates for very large and ultra large crude carriers fell relatively sharply. A VLCC was fixed at Worldscale 42.5 towards the end of the week for a trip to the US Gulf, but brokers said it was doubtful that this level could be maintained.

Elsewhere, brokers said rate levels deteriorated in West Africa, despite an increase in demand, because of a surplus of available tonnage. A 132,000 tonnes cargo was fixed at Worldscale 47.5 for a voyage to France, and 120,000 tonnes for Worldscale 55 to the US Gulf. EA Gibson, the London brokers, said there had been an influx of inquiries towards the end of the week, which it was hoped would end the slide in rates.

Business in the Mediterranean was said to be quiet, and most of the reported fixtures were for cargoes of around 80,000 tonnes for the short trip to Italy.

FINANCIAL TIMES

Published by the Financial Times (Europe) Ltd., Frankfurt Branch, represented by E.Hugo, Frankfurt/Main, and, as members of the Board of Directors, F. Barlow, R.A.F. McClean, G.T.S. Damer, M.C. Gorman, D.E.P. Palmer, London. Printer: Frankfurter Societaets-Druckerei-GmbH, Frankfurt/Main. Responsible editor: D. Albino, Frankfurt/Main, Guiollettstrasse 54, 6000 Frankfurt am Main 1, Tel: 75980; Tlx: 416193; FAX: 722677.

FINANCIAL TIMES, USPS No 190640, published daily except Sundays and holidays. US subscription rates $365.00 per annum. Second-class postage paid at New York NY and at additional mailing offices. POSTMASTER, send address change to: FINANCIAL TIMES, 44 East 60th Street, New York, NY 10022.

Credit card forgery crackdown in France

By George Graham

FRENCH police believe they have broken up the country's biggest ever network of credit card forgers.

About 40 people were arrested at the weekend in Paris, the Marseille region and in Spain, where the false cards were manufactured. The network is thought to have caused losses of FFr50m ($4.9m) to FFr80m.

France has led the world in the development of "smart cards," bank and credit cards equipped with electronic chips, but it has also led the world in card forgeries.

Total losses on forged credit cards this year are estimated at FFr100m by the Carte Bleue group, the major French card distributor and part of the Visa network.

France suffers another FFr250m to FFr300m a year of card fraud, for instance from the use of lost or stolen cards.

Carte Bleue hopes that the introduction of smart cards all over France by 1989, replacing the more easily forged magnetic strip cards, will cut down sharply on credit card fraud.

The dismantled card forging network manufactured duplicates of existing cards, using carbons from credit card sales forms.

John Wyles on the political legacy of a man who drew inspiration from Mussolini

Italy's neo-fascists lose their post-war Duce

A DAPPER little man with a white, clipped moustache, who might preside elsewhere over a Rotary Club dinner or a discreet wine tasting, bowed out at the weekend as the dominant post-war influence over Italian fascism.

For at least two generations of Italians, Mr Giorgio Almirante has personified the Movimento Sociale Italiano (MSI), a party politely referred to as "neo-fascist" because a revived fascist party was banned by the nation's post-war constitution.

But Mr Almirante, now 72, has always drawn his inspiration from the man he still professes to love and, indeed once served - the much bulkier and undeniably more charismatic Benito Mussolini. He met his idol only once when he was chief aide to one of Mussolini's ministers in the inglorious Republic of Salo, set up behind German lines in 1943 after the war and the Italian people had begun to turn against Il Duce.

Mr Almirante was a founding member of the MSI in the early post-war years, and its first party secretary. After a break of several years he returned to the office in 1969 and has maintained the party's position as Italy's fourth largest grouping, taking between 5 per cent and 7 per cent of the vote in general elections.

Its supporters are an odd coalition of malcontents, idealists and, almost certainly, activists on the revolutionary fringe. Most of its votes come from the north of the country, from a radical, hard-right culture which in some cases may be republican, in others monarchist. In the south, the support is more obviously nostalgic for the era of discipline and punctual trains; often eccentric, usually lower middle class.

Almirante: divided party

While Mr Almirante has always condemned political violence, he has never fully allayed suspicions that the MSI took a benign view of the attempts to destabilise Italy in the 1970s. Some of its activists have been condemned for terrorist offences and the party has, on more than one occasion, numbered people of dubious background among its parliamentary representation so as to afford them immunity from trial.

The little man's legacy is a party which is in its fairly normal state of deep division, only more so. There were no fewer than four candidates for the succession, each representing various conflicting views of what ought to be the party's future strategy.

Some want to it stay where it is, looking backwards into the future, others aim to move it on to more politically respectable centre ground in competition with the Christian Democrats. A radical grouping is urging a move to the left of the Socialist Party while an extra-parliamentary wing wants it to fish more efficiently in the rivers of popular discontent and protest.

While playing the constitutional game, the MSI remains in the system but not of it. In his parting address to a party congress in Sorrento which included Mr Jean Le Pen, the voice of the renaissant extreme right in France, Mr Almirante pointed triumphantly to the other parties' renewed interest in political reform as justification for the MSI's long-standing rejection of the corruption and inefficiency of the present system.

Surprisingly, he also reserved some of his harshest words for Mr Bettino Craxi, the Socialist leader, whom he has eulogised in recent years and whose national image is conditioned by the blackshirt and military boots in which the cartoonist Forattini always dresses him.

Hapag-Lloyd to spend $1bn in recovery programme

BY KEVIN BROWN, TRANSPORT CORRESPONDENT

HAPAG-LLOYD, the West German shipping, aviation and travel group, is to spend DM 1.75bn ($1.07bn) on ships and aircraft for delivery over the next four years.

The expansion programme marks the final stage of the group's recovery from a financial crisis four years ago, when it was effectively taken over by two West German banks.

The core of the expansion programme is the replacement of the fleet of 13 aircraft operated by Hapag-Lloyd Flug, the group's charter airline subsidiary, at a cost of DM 1bn.

Firm orders have been placed with Boeing, the US aircraft maker, for six 737-400 aircraft, capable of carrying 142 passengers, and six 737-500 aircraft, built for 108 passengers.

Hapag-Lloyd has also ordered four A310 aircraft from Airbus Industrie, the European manufacturer, and taken options on four extra aircraft from Boeing.

Boeing said its share of the order was worth more than $300m, excluding the options. Both aircraft are new designs based on the Boeing 737-300, and neither is yet in commercial service.

Hapag-Lloyd is also spending DM 500m on two container ships to be built in West Germany for the North American trades, and a third container ship for the Europe-Australia service to be built at the Hudong yard in Shanghai.

The remaining DM 250bn will be invested in the group's travel agency, and its ports, cruising and freight forwarding activities.

Hapag-Lloyd will phase out some of its fleet of 19 container ships when the new vessels are delivered in 1989, but says it intends to retain a large container fleet.

Revenue from container shipping is expected to be down by around 15 per cent in DM terms this year, because of the weakness of the US dollar, in which freight rates are expressed.

Group revenue is expected to be around DM 3.4bn, the same as last year, and net profits are expected to exceed last year's level of DM 53m

OVERSEAS NEWS

Roh gives voters a chance for second thoughts

BY MAGGIE FORD IN SEOUL

ONLY TWO days before South Korea's presidential election Mr Roh Tae Woo, candidate for the ruling party, has offered voters a chance to confirm their choice after the Seoul Olympic Games next year.

If elected, he told a large rally at the weekend, he would hold a vote of confidence on his performance. He outlined a new set of promises to add to those he made in June which led to the election.

These included an end to authoritarianism in government, the reorganisation of intelligence bodies so that they deal only with espionage, an investigation of scandals and corruption under the present government, and an amnesty for prisoners.

Opposition leaders described the proposals as deceptive and irresponsible, suggesting that the Government regarded the election as only a rehearsal.

Fears that Mr Roh's rally, held on the anniversary of the military coup which brought President Chun Doo Hwan to power, would be violent, proved unfounded, although 10,000 police were deployed. Large groups of company employees, civil servants and bankers attended the rally as expected, many apparently under protest.

The two main opposition candidates, Mr Kim Young Sam and Mr Kim Dae Jung, both attracted large enthusiastic rallies in the final weekend of campaigning. In the absence of opinion polls makes it difficult to judge support and many voters appear uncertain about who might win.

Some evidence of a fall in Mr Roh's backing has been noted, but many voters believe that the two Kims are running neck and neck. Typically in South Korea, a last minute surge in support for one candidate might be expected, possibly even at the very last moment.

Volcker assails lack of US economic leadership

LACK of economic leadership from the US is aggravating the turmoil in world stock and money markets, Mr Paul Volcker, former chairman of the US Federal Reserve Board said yesterday.

He was speaking in a televised conference on the world economy in Tokyo with a group of of ex-central bankers and top economists. The panellists all agreed the US budget deficit was the main cause of both the October 19 "Black Monday" stocks crash and the dollar's slide to record lows, but were unimpressed by recent US action to remedy the problem, Reuter reports from Tokyo.

"I think there is a real emphasis on my own country, the US, to act more intelligently and more responsibly than has been the case," said Mr Volcker. Raising revenues by higher taxes, or cutting into social security programmes was the only answer to cutting the deficit substantially, he said, and there was no sign of this.

None of the panellists believed economic disaster was unavoidable, but neither did they think the US would act firmly. Mr Anthony Solomons, ex-head of the New York Federal Reserve Bank, predicted no real US action on the deficit until after next year's presidential election.

Last week's move by Congress to reduce the deficit was seen as inadequate to calm markets. "I am afraid that the recent package was not credible. I am afraid of another Black Monday," said Mr Thierry de Montbrial of the French Institute for International Relations.

"We must recognise that one of the casualties has been faith in the ability of governments to deal with crises," said Mr Christopher Tugendhat of the Royal Institute of International Affairs in London.

The economists believed that Tokyo must reduce Japan's large trade surpluses, and West Germany must make greater efforts to stimulate home demand. Attempts at co-ordinated action by large industrial nations to halt the dollar slide and win back investor and consumer confidence were otherwise of little use, they said.

Without action, the former central bankers also foresaw little possibility of stabilising exchange rates by intervention or in target zones.

Pakistan call on financial controls

By Mohammed Aftab in Islamabad

THE Pakistan central bank has urged the Government to deregulate its financial institutions and liberalise the economy in order to ensure orderly and speedy growth.

In its annual review of the economy, the State Bank of Pakistan commends the Government's actions in partly deregulating procedures for new investment, and liberalising prices of industrial and farm products. But this process needs to be continued, the report says.

It strongly recommends further deregulation of both money and capital markets, as well as reviewing the rate of return charged on business loans from the nationalised banks.

Under the new system of Islamic banking, the cost of borrowing from nationalised banks has gone up by 2-3 per cent over the past three years to as much as 18 per cent.

The Government and its investment banks are the main source of funds to business. In spite of government efforts to coax investment in new projects with tax breaks, private business remains "the reluctant groom of the Pakistani economy," as one senior economist has said.

The bank endorsed almost all the economic indicators released by the Government at the time of the national budget earlier this summer. But it said the 1986-87 government estimate of 7 per cent growth in gross domestic product may have to be lowered because of some reverses in agriculture.

● Iranian and Pakistani officials have agreed on ways to curb illegal traffic across their border, Reuter reports from Nicosia.

Iran's national news agency, IRNA, reported on Sunday that Interior Ministry officials from the two countries agreed on the measures during a three-day visit to Pakistan by an Iranian delegation led by Mr Ali Akbar Velayati, the Foreign Minister.

Roger Matthews and Richard Gourlay report from a nervous summit in Manila

Asean gives gunboat diplomacy new twist

A SHOW of naval force rarely seen in Manila Bay since General Douglas MacArthur returned at the end of the Second World War greeted the four heads of government who flew into the Philippines yesterday for the third summit meeting in 20 years of the Association of South-East Asian Nations (Asean).

Ships from Malaysia and Indonesia supplemented those of the Philippine navy in forming a 15-strong defensive arc on the seaward side of the conference centre where, for the next two days, President Corazon Aquino and her five guests are scheduled to breathe new economic and political life into the regional grouping.

Fears about security in the wake of half a dozen attempted coups against Mrs Aquino's government in the past 18 months have dominated the preparations.

The Phillppine President has moved into the conference complex for the duration of the meeting and the brief airport welcoming ceremony for the delegations from Brunei, Singapore, Malaysia and Thailand were conducted by her 16-year-old daughter, Kris, who in less formal moments likes to sing and dances on television.

President Suharto of Indonesia, despite his helicopter-carrying warships lying at anchor in the bay, does not yet appear fully convinced by the arrangements and is putting off his arrival until just before the conference formally opens today.

One of the least happy spectators to all these precautions may well be the man who, until a few days ago, was thought by many to pose the single greatest threat to the summit – Col "Gringo" Honasan, leader of the nearly successful coup in August and since the weekend incarcerated in a naval landing craft visible from the conference centre.

His much-applauded, if belated capture, has done nothing, however, to halt the spate of bombings which continued on Saturday night when a grenade was thrown at the Malaysian embassy. It caused no injuries and little damage and appears to be a continuation of nuisance attacks by domestic opponents of Mrs Aquino who want to disrupt the summit to embarrass her. In the past week, two bombs have exploded, one of them at the international airport, and more than 150 sticks of dynamite have been defused.

Just what the heads of government will talk about is still unclear, although, even before they arrived in Manila, a text of their final communique was being freely circulated among the large journalistic contingent. According to that version, the main economic agreements centre predictably on increasing the amount of intra-Asean trade conducted under preferential trading arrangements.

Equally predictably, there is little fresh on the highly sensitive issue of freer trade in agricultural products, but there is a promise to increase the number of joint industrial ventures. On tourism, the heads of government are likely to conclude that 1992 should be designated "Visit Asean Year."

But whatever the actual or potential seriousness of the situation, the natural good humour and irreverence of the Filipinos remain undimmed. Live television coverage of the arrivals was punctuated by commentators claiming that the best known fact about General Prem, the Thai Prime Minister, was that he was a bachelor, provoking a lively but inconclusive discussion on the relative beauty of ladies from the Philippines and Thailand.

Mr Lee Kuan Yew of Singapore was reported to be best known as a "student activist," while it was speculated that Dr Mahathir of Malaysia and his wife got on so well because they were both qualified doctors. However, there was less certainty about whether Malaysia had once been a British colony.

A similarly relaxed atmosphere pervaded the conference complex, shattered only by enthusiastically explosive 21-gun salutes that literally shook the buildings, themselves a tribute to the affection which former President Marcos and his wife had for the concrete-brutalist school of architecture.

As the heads of government arrived, smiling women tended the flower beds between the parked helicopters, fire trucks and mobile resuscitation units wishing "Happy Christmas" to strollers who, according to security regulations, should not have strayed from their designated building.

Only at the Philippine News Agency is there a sense of impending doom. There, an unhappy night editor is waiting to discover his fate having transmitted a paragraph which read: "Foreign Affairs Secretary Raul Manglapus yesterday said that the holding of the Asean summit here on December 14-16 signals an optimistic move that the Asean is achieving a real political orgasm in the region."

The failure to spot that the word should have been "organisation" had, according to the executive editor, changed the entire meaning of the story. The night editor has 48 hours to explain in writing why disciplinary action should not be taken against him, by which time he must hope, along with many others, that the third Asean summit is already part of history.

Iran 'using new weapon' to set tankers on fire

IRAN is using a new weapon or a new kind of incendiary projectile from weapons already in use, to set tankers on fire in the Gulf, regional shipping sources said yesterday, **Reuter reports from Dubai.**

"Whatever hit the Norman Atlantic and the Pivot caused devastating fires," said a shipping agent. "We suspect a new projectile, some kind of incendiary with phosphorus perhaps.

"In the past, projectiles fired by the Iranians caused only small holes in the ships and small fires which the crew on board could extinguish, usually with no help from firefighting tugs," he said.

Iran's decision to upgrade its anti-ship weapons could be a reaction to the presence of western navies in the Gulf, a moved criticised by Tehran.

Attacks have already increased since the Americans and West Europeans arrived in force last summer and it now appears the Iranians plan to increase the amount of damage caused to ships.

A huge blaze on the 232,164-ton Cypriot supertanker Pivot, following an Iranian attack on Saturday, forced most of the 44-member crew to abandon ship.

It took four fire-fighting tugs several hours to contain the blaze, the smoke from which could be seen 30 miles away in Dubai.

The attack on the Pivot, a retaliatory raid for Iraqi attacks on Iranian tankers, followed the sinking of the Norman Atlantic, a 85,129 ton Singapore-registered naptha carrier on Thursday at the entrance of the Strait of Hormuz.

The ship sank after burning for four days following an attack by Iranian gunboats as it left the Gulf for Japan with a load of Kuwaiti naptha.

The flames were so intense, reaching temperatures of 3,000 deg C and visible at night from 50 miles away, that fire-fighting tugs were forced to leave it to sink.

A total 155 vessels have been attacked in the Gulf this year, more than a third of the 420 hit since 1981.

● Jordan's King Hussein arrived in Qatar yesterday to discuss with gulf states the Arab-Israeli conflict and the Iraq-Iran war before his planned visit to London and Moscow, **AP reports from Qatar.**

Hussein was in Kuwait on Saturday and stayed overnight in Bahrain for talks with leaders.

Soviet Union conducts nuclear test

THE Soviet Union yesterday set off a nuclear explosion, at least the 20th test blast this year but the first since last week's signing of a superpower disarmament accord, AP reports from Moscow.

The official Tass news agency said the nuclear test had a yield of between 20 and 150 kilotons and was carried out at the test range in Semipalatinsk at 6.20 am, Moscow time. It was "conducted with a view to upgrading military equipment."

No other information about the test was disclosed.

At least 20 explosions have been reported since the Soviet Union ended a 19-month nuclear testing moratorium in February.

The US and Soviet Union have negotiated in Geneva on an end to nuclear testing, but so far have not come to agreement.

The US had scheduled a test of the Trident 2 missile on Thursday, but postponed it by a day so that it would not occur during the Washington summit.

Former S Yemen head predicts trial backlash

MR Ali Nasser Mohammed, former president of South Yemen, warned yesterday of a violent backlash after he and 34 of his ministers and senior officers were sentenced to death in a court in Aden, the capital of South Yemen, **Reuter reports from Sanaa, North Yemen.**

The trial lasted a year and ended on Saturday night.

"We are sure the reaction of our friends (in South Yemen) will be violent," said Mr Nasser Mohammed in Sanaa, the capital of North Yemen. However, he said he did not want war to engulf the two states.

The two Yemens have held periodic talks on terms for a possible merger, but Mr Nasser Mohammed said Aden had now turned its back on unity.

He also accused Gulf Arab states, and Saudi Arabia in particular, of backing Aden. "There are countries who do not want unity – Saudi Arabia and others."

He believed North Yemen's President Ali Abdullah Saleh would ask the Soviet Union to persuade South Yemen to reconsider the verdicts, but was pessimistic over prospects for success.

Mr Abdul-Karim al-Iryani, North Yemen's Foreign Affairs Minister and Deputy Prime Minister, described the court's decision as a political setback but he did not think it would raise military tension.

UK to speed drought aid to India

BRITAIN is to speed up a multi-million dollar aid program to help India through one of its worst droughts this century, Mr Christopher Patten, British Overseas Development Minister, said yesterday, **Reuter reports from New Delhi.**

Speaking at the end of a 10-day visit during which he announced British aid worth £45m ($84m) Mr Patten said he had agreed to make payments before work began on social projects instead of after completion.

He also announced a £3m grant towards water drilling in drought-affected areas and said Britain was studying other ways of helping India deal with water shortages.

Britain is the largest bilateral donor to India, having given bilateral and multilateral grants worth £950m in the past five years.

UK NEWS

Minister counters hospital criticisms

By Peter Riddell, Political Editor

THE GOVERNMENT has launched a counter-attack over the level of efficiency in hospitals in the face of recent criticism from leading members of the medical profession and the opposition parties that the National Health Service now faces a serious crisis.

This offensive against an almost daily barrage of criticism will be followed by a Commons announcement this week on the detailed allocation of the proposed £700m extra next year for the hospital and community health service.

No additional money is planned in the short-term, but there could be some limited provision from the contingency reserve for specific projects and for the restructuring of nurses' pay.

The main emphasis will be on further improvements in efficiency and on increased co-operation with the private sector. Senior ministers have agreed that any fundamental changes in the financing of the NHS will have to wait until the early 1990s with proposals in the party's election manifesto.

Mr Tony Newton, the Health Minister, yesterday denied there was a crisis in the NHS. Interviewed on BBC television, he said criticisms of the acute hospital sector, such as in last week's unprecedented statement from the presidents of the Royal Colleges of Surgeons, Physicians and Obstetricians, did not do full justice to the NHS as a whole.

He said it was not enough for doctors to draw attention to the problems without recognising the important contribution they could make themselves to tackling the difficulties.

His comments followed stronger criticism of doctors in the Sunday newspapers which were said to reflect the view of Mrs Margaret Thatcher, the Prime Minister, that consultants were partly responsible for inefficiency as a result of restrictive practices.

Mr Newton stressed the need to look at all possible ways of enhancing the total spent on health. The priority was, he said, to use all resources to the full.

Industry emerges from crash in healthy position

BY PHILIP STEPHENS, ECONOMICS CORRESPONDENT

BRITAIN'S manufacturing industry appears confident that it will escape almost unscathed from the stock markets' crash and is reporting a further strong improvement in its output and order books.

The latest monthly industrial trends survey from the Confederation of British Industry does, however, suggest that sterling's recent strength against other major currencies may now be dampening demand for exports.

The organisation's optimism on the short-term outlook is also reflected in new forecasts published today by two leading City of Londonsecurities houses. Economists at James Capel believe that despite a significant slowdown relative to its performance in 1987, Britain's economy will remain the fastest-growing of the major European countries in 1988.

Mr Gavyn Davies at US securities house Goldman Sachs says that the Government will probably have £3bn to spend in cutting both the basic and the top rates of tax in the March budget. At least for the next few months the outlook for output and inflation remain good, although later in 1988 Britain's trade balance may deteriorate "alarmingly".

Companies' responses to the CBI survey, the second since stock markets around the world began their steep decline in mid-October, are likely to bolster the Government's confidence that output will grow by around 2.5 per cent next year.

About one-third of the 1,366 companies canvassed by the CBI said that their order books were above normal. A further 51 per cent said they were about normal and only 15 per cent said orders were below expectations.

A similar confidence was reflected in forecasts of the level of manufacturing output. Some 40 per cent of companies expect their production to rise further over the next four months, while only 9 per cent anticipate a decline.

Financial markets will be watching closely to see whether this optimism is matched by evidence from a range of official statistics due for publication this week. In particular, figures for retail sales and for unemployment in November will be scrutinised for any sign of a slowing in the pace of economic growth.

The Department of Trade and Industry's survey of investment intentions, due on Thursday, should also provide some indication of whether companies have scaled back their expansion plans in response to the stock markets' crash.

Although the evidence from the CBI is encouraging, there is still official concern that businessmen could react to the uncertainties caused by the turbulence on financial markets by delaying or reducing investment expenditure.

Uncertainties about the prospects for exports are likely to be intensified by signs in the CBI survey of a falling off in export orders over the past month in the wake of sterling's sharp rise against the falling dollar.

Mr David Wigglesworth, the chairman of the CBI's economic situation committee, said that the downward shift underlined to importance of further cuts in interest rates to restore industry's competitiveness.

The responses to the survey also point to increased upward pressure on prices, with the proportion of companies planning to increase their prices the highest seen since the start of this year.

More funds for Underground

BY KEVIN BROWN, TRANSPORT CORRESPONDENT

CAPITAL investment in the London Underground system is to rise to more than £300m next year, an increase of about 50 per cent on the current year.

London Regional Transport, which runs the capital's underground and bus services, plans to spend a total of £365m in 1988/89, compared with £305m in the current year.

Capital investment on the Underground will increase from about £200m to more than £300m, including spending on the extension of the Docklands Light Railway from Tower Gateway to Bank.

Treasury approval for LRT's proposals is understood to have been given before the fire at King's Cross Underground station three weeks ago, which killed 31 people.

The detailed figures remain confidential, but are expected to be announced shortly, together with the proportion to be provided by Government grant.

The proposals mark the fifth year of increased capital spending on the Underground since 1983, the last full year before LRT was nationalised by being removed from the control of the Greater London Council.

Underground investment will have increased by more than 100 per cent in real terms by the end of next year, from a base of £123m in 1983 (at 1986/87 prices).

The increased spending has been financed largely by an increase in revenues from fares, which has helped to transform the financial performance of the Underground from a loss of £23m in 1982 to a surplus of £70m last year.

Government grants for capital spending fell from £165m to £100m over the same period, but are expected to rise to £113m this year.

Most of the money is being spent on renewing the infrastructure of the Underground, including a station improvement programme which has been criticised by conservationists.

The Underground has just taken delivery of the first of 16 new trains, which will add 3 per cent to capacity, and work has begun on an extension of the Docklands system.

The system remains under extreme pressure, however, because of an increase in passenger numbers of more than 50 per cent in the past three years.

In the longer term, plans have been approved for a £500m renewal of the Central Line from 1992 onwards, and proposals are being drawn up for a revamp of the Northern Line at much the same cost.

Government to press for water regulatory body

BY RICHARD EVANS

THE GOVERNMENT is to insist that a powerful new body, the National Rivers Authority, should take over all regulatory functions of the water industry on privatisation, despite widespread misgivings within the industry.

A decision on a new structure for the industry, which is due to be privatised in stages from late 1989, is expected to be announced this week.

The key element in the statement will be whether the physical functions - such as river management - for which the NRA will be responsible should be done by the authority itself, by the privatised water authorities under contract, or contracted out to private industry.

The indications are that ministers are prepared to accept the desirability of contracting back some of the functions to the authorities to allay some of the fears of industry's leaders that there is a danger of over-regulation.

Many of the chairmen of the 10 water authorities in England and Wales, have argued that an NRA structured to take over all the regulatory and river management powers of the authorities would damage efficiency and the industry's prospects of selling its expertise abroad.

However, ministers believe that a strong public sector regulatory power is inevitable to avoid one private sector body regulating other private sector interests.

Functions that are certain to be transferred to the NRA include water resources regulation and planning, environmental quality and pollution control, land drainage and flood protection, fisheries, navigation, and conservation and recreation.

The Government's timetable is to introduce the main privatisation bill at the beginning of the next parliamentary session in the autumn. This should reach the statute book by July 1989 to enable the first authority to be floated off by the end of that year.

UK NEWS

CEGB to import supplies at half domestic price

BY GERARD McCLOSKEY AND MIRI ZLATNAR

THE CENTRAL Electricity Generating Board has contracted to import 3.6m tonnes of coal over the next three years at about $35 (£19.1) a tonne – roughly half the average price it pays for supplies from British Coal.

Three big contracts will account for most of the board's overseas supplies up to 1991. The new suppliers are Shell Coal International (supplying Australian coal), Carbocol (Colombian coal) and SSM, the Dutch trading house which will provide coal from the new Chinese An Tai Bao mine.

Each supplier will ship up to 400,000 tonnes in each of the next three financial years. A further 200,000 tonnes will be bought on the spot market. The tonnages will replace imports from Austen and Butta's Invincible mine in New South Wales, which has shipped 750,000 tonnes a year to the CEGB since the mid-1970s.

The new delivered prices will range from $34 a tonne for the Colombian and Chinese coals to about $36.50 for the Australian. The Australian coal was originally to have been supplied by Invincible but Austen and Butta suddenly decided to close the mine.

While the CEGB is familiar with Carbocol's El Cerrejon coal and has burnt coal similar in quality to the Shell blend, the An Tai Bao coal is of untested quality.

It is being produced by a joint venture between Occidental Petroleum and the Chinese authorities and its success is crucial to plans for Chinese coal exports over the next few years.

Although the CEGB has been able to negotiate very low prices, closure of the Invincible mine shows current world prices are putting strong pressure on suppliers. Six Australian mines – three were Austen and Butta's – have closed this year as rising costs outstripped static prices.

A substantial cut is also to be made at the South African Ermelo mine. Although South Africa has this year suffered because of coal export sanctions which are expected to reduce shipments by 7m tonnes to 38m tonnes, the Ermelo cut is the first loss of tonnage because of rising costs.

BP Coal, a joint-venture partner in Ermelo with Total and Trans Natal, has pulled out. Until very recently, closing capacity in the very low-cost South African industry would have been unthinkable. But rising wage rates, continuing inflation and a big rise in rail freight charges to the exporting terminal at Richards Bay are proving too much for the Republic's high-cost producers.

Alliance to keep open its policy on defence

By Peter Riddell, Political Editor

THE PREAMBLE to the constitution of the new merged Alliance party of Liberals and Social Democrats will include support for collective security through Nato, while leaving the specific approach to nuclear defence to a separate policy declaration from the two party leaders.

The constitution and policy preamble are to be published tomorrow after a final meeting of the joint negotiators. Mr David Steel, the Liberal leader, and Mr Robert Maclennan, of the SDP, are due to finish drafting the separate policy declaration in the week before Christmas.

Detailed proposals will be sent to members of both parties ahead of their respective conferences towards the end of next month and membership ballots will be held in February.

An argument is possible at this afternoon's meeting of the SDP's ruling national committee over the proposal that a "shell" SDP should continue until the next election under the umbrella of the new merged party.

That suggestion is opposed by supporters of Dr David Owen, the former party leader, who now operate under the banner of the Campaign for Social Democracy and who want to keep a separate SDP going after the merger. They see the idea of a continuing "shell" SDP as an attempt to frustrate their plan, although there is no monopoly in the use of party names.

The leader of the new Alliance party will not be known until October or November because a computerised membership list of the new party will not be available until July and no ballot will be held until after the autumn conferences.

Maggie Urry and Alice Rawsthorn on how retailers are faring

Slow start for Christmas spree

"CHRISTMAS WON'T be Christmas without any presents," whinged one of Louisa M. Alcott's Little Women. That appears to be a sentiment shared by the great British consumer. Christmas should be a record yet again.

Although some retailers are confessing to less-than-sparkling sales in the run-up to Christmas and arguing that the stock market crash has dented consumer confidence, it is generally more a matter of sales below optimistic targets than a reduction on last year's business.

The fact that Christmas Day falls on a Friday this year is being offered by many as a reason to expect a late surge. Shoppers are supposed to feel that they have more time left in spite of the inexorable countdown of shopping days to Christmas. Retailers would prefer shoppers to start Christmas buying earlier to spread out the hectic trading.

A slow start to the season of goodwill seems to have been picking up. Mr Robert Austin, Debenhams' marketing director, said that in early November business was light, but since the middle of that month trade had picked up well. A 12-hour sale last Thursday produced sales two-and-a-half times higher than those on the same day last year.

Sales of big-ticket items, such as electrical goods, are below retailers' expectations, say chains such as Rumbelows, Comet and Dixons, but cheaper items are selling well.

Boots, which offers a huge range of goods through its 1,000 branches, agrees that while high-cost items are the slowest sellers, higher-margin goods such as cosmetics and perfumes are doing much better.

Meanwhile, at Sock Shop and Tie Rack, sales - where comparisons with last year are possible - are showing percentage gains well into double figures. As well as benefiting from more traditional retailers' discomfiture, the old image of socks and ties as "it's the thought that counts" presents for difficult uncles has changed. They are now regarded as cheerful, fun offerings.

Jewellery group Ratners, which is also seeing sales well ahead, again where comparisons are possible, reports strong demand for watches. They, too, have become cheap, fashion accessories rather than boring and functional items.

On the other hand, Marks & Spencer reports that "sales are slightly slow in every department." Nevertheless, it too should show an increase on last year.

Other clothing retailers seem to have fared better, with Next store sales on target and its mail-order business, Grattan, which has already had its Christmas peak, well ahead on last year.

Laura Ashley, the fashion and furnishings group, also says sales are at expected levels. "We will not have a bonanza Christmas this year," said Mr Peter Philips, finance director. "But sales are well ahead of last year and up to our expectations."

The Christmas sales pattern is one that has been seen before. Mr Nigel Whittaker, chairman of the Confederation of British Industry's retail panel, says: "The electrical market has been weak for many months after three record years. It is not related to October 19."

He agrees that retailers have been too optimistic throughout the year, with their hopes repeatedly disappointed. The puzzle of why retail sales have not been as buoyant as expected when disposable incomes are rising fast dates back to well before the Christmas period.

According to the finance director of one of the largest multiple retailers, "The pattern of sales during the year as a whole has been very volatile. When confidence is high, consumers seem to spend effortlessly. But if anything happens to knock confidence – whether it is the Budget, the election or the stock market collapse – people stop spending."

Another retailer puts his view more bluntly: "Those who have done well during the year are doing well now - and vice versa."

Laundries find NHS tendering 'a failure'

BY DAVID BRINDLE

COMPETITIVE TENDERING in the National Health Service has been a failure for laundry contractors, according to the industry's main employers' group.

The Association of British Laundry, Cleaning and Rental Services, has said unless the Government changes the competition regime, "very shortly private contractors are likely to cease tendering for any NHS contracts."

However, the Government's latest guidance to health authorities makes only limited changes. The guidance, issued for the retendering for three-year contracts awarded since the regime was introduced, is unlikely to appease dissatisfied contractors.

Mr Len Peach, chief executive of the NHS management board, has said that "in general" he rejects the association's criticisms.

The association has made its comments in a letter to the Commons Public Accounts Committee, published with a transcript of the committee's proceedings when Mr Peach was questioned.

Although all health authorities have been required to invite tenders for hospital laundry, cleaning and catering services, the letter says contractors' market share is "little changed from the estimated 10-11 per cent share before the onset of competitive tendering in 1983."

Denying that contractors are "bad losers," the letter goes on: "We are discouraged from competing for NHS contracts not because we have failed to win a significant number of contracts in the past five years, but because of the reasons for this failure - serious inequalities inherent in the tendering process which operate against external tenders."

The association demands: a compensatory mechanism for NHS capital accounting procedures; clearer guidance on the permitted stringency of contract conditions; the opportunity to tender for full linen management (linen hire) for all contracts; full disclosure of health authorities' tender evaluation criteria; and an appeals mechanism against contract awards.

The latest guidance provides for relative additional – not existing – capital costs of tenders to be equalised and draws attention to the linen hire option.

The NHS tendering programme is said to have produced savings of £103m a year, mostly in cleaning, with 15 per cent (207) of all contracts won by the private sector.

Of the 207 contracts, 19 have been terminated prematurely. Mr Peach told the committee eight of the terminations were because of poor quality of work.

Committee of Public Accounts: Minutes of Evidence Wednesday November 4, 1987. HMSO. £3.40.

Berkshire marina and homes plan

By William Cochrane

REED INTERNATIONAL, the publishing and paper group, has put forward a consultative document that might lead to the building of 750 houses and a marina on the river Kennet in Berkshire, close to one of the richest commercial stretches of the M4 motorway.

The proposal, which involves high infrastructure costs and a notional development value of between £80m and £90m, coincides with the imminent publication of the revised Berkshire Structure Plan, a guide to planners and developers.

It is expected to call for a significant allocation of new residential accommodation in the location of Reed's chosen site, by East Thatcham, east of Newbury.

Reed also proposes to tackle traffic and environmental problems in the area, after two years' work by chartered surveyor Debenham Tewson & Chinnocks and a comprehensive traffic study by its consulting engineering firm, Peter Brett Associates, of Reading.

The group has 180-acres of land surplus to requirements and aims to improve the local highway network, meet housing needs and provide new bridges and a marina.

Mr Paul Sheldrick, a senior development surveyor at Debenham Tewson & Chinnocks, said the marina would revitalise the historic Colthrop village centre with a new canal basin and mooring facilities, shops, a cafe and a pub.

Value of textile imports from Far East rises 12%

BY ALICE RAWSTHORN

IMPORTS OF textiles and clothing from the Far East into Britain have risen sharply this year, fuelled by the decline of the dollar, to which many Far Eastern currencies are linked.

The quarterly report from the British Textile Confederation, published today, says the value of textile and clothing imports rose by 12 per cent to £4.7bn in the first three quarters.

Almost all the increase comes from the Far East, which has benefited from comparatively low labour costs and from the weakness of dollar-related currencies. British companies confronted increased competition from Hong Kong and South Korea, as well as from emerging sources such as Indonesia.

By contrast imports from EC countries were static.

The influx of imports accelerated as the year progressed, and as the dollar declined. In the third quarter, the rate of increase in imports of textiles had risen to 19 per cent and of clothing to 20 per cent.

The impact of this increase on the domestic textile industry has been cushioned by an accompanying rise in exports.

A continued increase in exports of textiles and clothing to Europe contributed to an overall rise of 11 per cent to £2.5bn in the first nine months of the year. In the third quarter, exports of textiles increased by 16 per cent and of clothing by 13 per cent.

Nevertheless the surge in imports meant the balance of trade deficit widened to £2.2bn between January and September.

So far there is no sign that the imports increase has destabilised activity in the British textile industry. Output dipped slightly in the first quarter, recovered in the second and rose in the third.

Trends in Textile and Clothing Trade. British Textile Confederation, 24 Buckingham Gate, London SW1E 6LB. (£25 to non-members.)

Fears grow for City jobs

THE STOCK MARKET crash might cost 50,000 City jobs, Mr Stephen Lewis, economic research director with stockbroker Phillips and Drew, said yesterday.

He told Channel 4's The Business Programme that he expected the final jobs loss toll to be five times higher than current press estimates of 10,000.

"The figure of 10,000 for prospective City job losses was based on a rather crude estimate assuming 3 per cent of the total numbers employed lose their jobs," he said.

"I think that's rather a low estimate and I think the figure is going to be higher - 50,000 would not be a surprise."

Mr Lewis predicted that one result of the crash would be increasing dominance by Japanese securities houses. Their attitude was to stick with long-term plans and they were unlikely to be deflected from their objectives by what had happened in the markets, he said.

UK NEWS

Financial adviser licensing date

BY ERIC SHORT

THIS WEEK the Government is expected to announce the date by which independent financial advisers must apply for authorisation, known as P-Day, to ensure at least interim authorisation when the provisions of the 1986 Financial Services Act come into operation in April.

There is a strong probability that the announcement will be made today.

Under the act, it will be illegal for any person or firm to offer investment services or give investment advice unless the person or firm concerned is authorised.

Authorisation will be obtained either direct from the Securities and Investments Board (SIB), the body adminstering the act, or from one of the self-regulating organisations under it.

For independent financial advisers the relevant self-regulating body is the Financial Intermediaries, Managers and Brokers Regulatory Association (Fimbra).

Because of the time needed to process applications before the day when the act becomes operative, known as A-Day, the Government is fixing a prior day for applications - P-Day.

Provided an application is received by then, interim authorisation will be granted by the SIB to enable the continuation of trading even if Fimbra has not yet processed an application.

If an application is submitted after P-Day and if the adviser has not received authorisation by A-Day, he will have to cease trading until authorisation is granted.

Originally, P-Day was to be in mid-January. Now it is expected to be some time in March.

The latest figures from Fimbra show that it has about 3,700 members, with a further 3,700 applications being considered. About 5,000 incomplete or incorrectly completed forms have been sent back to applicants for failing to meet requirements. Fimbra is still sending out application forms at the rate of 200 a week.

Fimbra has made clear that partly completed forms will not be accepted and that each application must conform with the financial services requirements and have accompanying references and financial statements.

The Campaign for Independent Financial Advice (Camifa), sponsored by 14 leading life companies, has produced a video which explains how the forms should be completed.

Camifa hopes the video will help to reduce the backlog of applications.

Meanwhile, concern among independent financial advisers over their position under the financial services legislation led to the formation yesterday of the National Federation of Independent Financial Advisers.

One immediate task of the federation is to put its weight behind the campaign by Commander Colin Cochrane for a judicial review of the composition of Fimbra's council, which is claimed to be heavily weighted against firms which do not handle clients' money.

The formation of that body will further fragment the representation of independent financial advisers, which already had two representative bodies — the British Insurance Brokers' Association and the Life Insurance Association.

Mr Geoff Kangley, acting chairman of the federation, said the consensus among independent financial advisers was that they needed their own exclusive association to promote their views and further their cause.

He said the Life Insurance Association, representing both independent advisers and tied agents, had an almost impossible task trying to promote the interests of one sector without cutting across the interests of the other.

The federation is embarking on a membership drive and inquiries should be directed to Mr Howard Evans, Pendragon Financial Services, 22 Bugdens Lane, Verwood, Dorset BH21 6EY.

Inner cities to be Cabinet task

BY PETER RIDDELL, POLITICAL EDITOR

A CABINET minister responsible for the day-to-day co-ordination and presentation of the Government's policies on inner cities will be appointed this week, as one of a number of announcements before Parliament rises for its Christmas recess on Friday.

Mr Kenneth Clarke, Chancellor of the Duchy of Lancaster and Industry Minister, is expected to get the job because he is already responsible for the inner-city task forces and it is agreed that the minister should be of Cabinet rank.

Mrs Thatcher will, however, remain firmly and publicly in charge of inner-city policy, chairing the meetings of the ministerial committee co-ordinating the work of several departments in this area. The Cabinet Office unit on the inner cities will also report to her.

Mr Clarke's expected new role will be largely presentational and intended to avoid the confusion between departments that has arisen in recent months.

Kenneth Clarke: tipped for inner-city job

There has been a lengthy tussle between the Environment Department, which has responsibility for most of the money going to the inner cities in various forms, and the Trade and Industry Department, with its role in promoting enterprise and the task forces.

Announcements are also expected this week on the lump-sum payment to pensioners and other social-security beneficiaries for the underprovision caused by an error in compiling the retail prices index, and on the allocation of additional money for health authorities in 1988-89.

The main Commons interest will be in the debate on Wednesday and Thursday on the local government finance bill to replace domestic rates with the universal community charge or poll tax.

A sizeable group of Tory backbenchers, including former ministers Mr Edward Heath, Mr John Biffen, Mr Michael Heseltine, Sir Ian Gilmour, Sir George Young, Sir Barney Hayhoe and Mr Jim Lester, do not support the proposal, and are seeking to back a special Commons motion or instruction calling for a banded structure reflecting ability to pay. It is likely to be the largest revolt since the June election.

Dutch deal signed by Mercury

By Terry Dodsworth

MERCURY Communications, sole competitor to British Telecom in the UK, has made another breakthrough into the European public telephone market with an agreement to exchange traffic with the Netherlands.

The deal, with the Netherlands' public telephone company, includes a plan for a submarine optical fibre link between the two countries.

Mercury has been keen to sign agreements with its counterpart network operators on the Continent because the overseas calls it generates to Europe have to be channelled through British Telecom. That means it loses out financially under current international traffic arrangements.

The announcement of the switching link, scheduled to start early next year, follows strong support for the company's European campaign from the UK Government, which sees the establishment of Mercury internationally as an important element in its plan to create a viable second telephone operator in Britain.

The deal comes after similar agreements earlier in the year with Italy and Denmark, and Mercury says it is confident it will have several more contracts signed before the end of its financial year in April.

● British Telecom has acquired the London-based computer software operations of Fireman's Fund, the US insurance company.

The purchase, for an undisclosed sum, will give BT a ready-made systems management unit with 90 people skilled in working with IBM computers. Such skills are scarce.

BT is pushing increasingly into data processing areas in an attempt to marry its telecommunications skills with the management of data sent over its telephone lines.

UK growth 'fastest in Europe'

BY PHILIP STEPHENS, ECONOMICS CORRESPONDENT

BRITAIN'S ECONOMY will remain the fastest-growing of the main European countries next year as the recent turbulence on financial markets depresses Europe's average growth rate to below 2 per cent, a leading City securities' house predicts today.

In a review of prospects for 1988, economists at James Capel forecast that European output will rise by only 1.8 per cent on average in 1988 after a 2.2 per cent increase in 1987.

The economists believe that the recent stock market collapse may have only a marginal effect on consumer spending next year. But uncertainties over the level of demand in the wake of both the equity price fall and the dollar's sharp depreciation against European currencies will depress industrial investment.

The rapid appreciation of the D-Mark against the US currency and West Germany's dependence on exports mean that the Federal Republic is likely to be the worst hit economy in Europe. Its output is projected to rise by only 1.3 per cent in 1988 after this year's increase of 1.6 per cent.

The German slowdown will be transmitted to other European countries, to which its performance is closely tied. The review says the French economy is now likely to expand by only 1.6 per cent in 1988 against the 2 per cent previously forecast.

Relative to its buoyant performance this year, the pace of expansion in the UK will also slow down markedly. Yet a projected rise in output of 2.6 per cent next year (compared with 3.7 per cent in 1987) will still be well above Europe's average.

Among smaller economies, the fastest-growing next year is expected to be Spain, where this year's 4 per cent output rise is likely to be followed by a 3.5 per cent increase in 1988, Capel forecasts.

Inflation throughout Europe is projected to remain subdued, with the average rate edging up only fractionally from 3 per cent in 1987 to 3.2 per cent in 1988. Britain's rate, at 4.1 per cent in 1987 and a projected 3.5 per cent next year, is likely to remain above the average.

Independent may launch Sunday paper

By Raymond Snoddy

THE INDEPENDENT, which made its first monthly trading profits this autumn, is considering entering the Sunday newspaper market.

The Independent is looking in detail at launching or acquiring a Sunday newspaper as one option in a study of future development opportunities.

Last week the newspaper announced the tenth successive monthly circulation rise to a record average of 383,315 copies in November.

If present trends continue, its circulation might overtake that of The Times — now about 446,000 — by next summer.

If the newspaper's board decides to tackle the Sunday market, a possibility would be to try to buy The Observer from Lonrho. The two papers already share some printing plants, but it is unclear whether Lonrho, which earlier this year sold Today to Mr Rupert Murdoch for £38m, would be willing to sell.

Newspaper Society steps up zero-rating campaign

BY RAYMOND SNODDY

THE NEWSPAPER Society, the body representing local and regional newspapers, will this week produce its first "national newspaper" — a four-page tabloid designed to counter the threat of value-added tax on newspapers.

The print run of the one-off publication, called Your Local Local with a splash headline, "The VAT threat to papers and people," will be 15,000.

Mr Dugal Nisbet-Smith, director of the society, says newspaper proprietors throughout the country will be asked to deliver a copy personally to their MPs.

The society, like book publishers, is alarmed that the Government has been ostentatiously refusing to include newspapers and books in the few exemptions from VAT. The only government commitments are to maintain zero-rating for food, fuel and children's clothes.

Mr Nisbet-Smith believes that Mr Nigel Lawson, the Chancellor, might announce a VAT rate of 15 per cent on newspapers and books in next year's budget as part of the general move towards indirect rather than direct taxation.

Such an increase, coming on top of a 24 per cent rise in newsprint prices over the past 14 months, might lead to 5p cover price increases for local newspapers — traditionally price-sensitive products.

There are 1,863 newspaper titles in the UK, 945 of them free newspapers, with total annual revenues of £1.1bn.

When VAT on newspapers was last threatened, in 1985, a Price Waterhouse report suggested that between 90 and 100 titles would immediately go under and that between 6,000 and 7,000 jobs would be lost.

"A positive rate of VAT would threaten the independence and diversity of the regional and local press, distort the relationship between paid-for and free newspapers and between print and broadcasting media and lead to fewer sales and titles," Mr Nisbet-Smith said.

Savings loss checked

By Eric Short

THE LOSS of funds in National Savings was checked last month when a net contribution of £25.2m was recorded.

That followed three successive months when there was a net outflow of funds.

Investment in Income Bonds, Deposit Bonds and the National Savings Investment Account were the main contributors to November's figures.

Investors continued to cash in fixed-interest and index-linked National Savings Certificates.

Total investment in National Savings products stood at £35.5bn at the end of last month, compared with £33bn a year ago.

Gilts Office seeks more participants

BY SIMON HOLBERTON

MEMBERSHIP of the Central Gilts Office, an electronic transfer system for the assured payment and delivery of gilt-edged stock, is to be extended to a wider range of participants in the gilts market.

The Bank of England, which operates the office, is pleased with the way the system has operated after Big Bang and believes wider participation will help to keep down costs and expand the use of the more efficient electronic transfer of gilt-edged stock method.

Membership of the office has been confined so far to authorised gilt market-makers, Stock Exchange money brokers, inter-dealer brokers, discount houses and the settlement banks. The Bank is keen to see that all others in the market, such as broker-dealers and institutional investors, benefit from the efficiency the office has brought to the transfer of stock.

The Bank told the office's current membership that it envisaged two ways in which participation could be effected: either through direct membership of the office, or by indirect membership, whereby the participant's stock is held in the nominee accounts of an existing member of the system.

Large and frequent traders of gilts could be expected to apply for direct membership, while smaller players who could not justify the expense of joining the system could avail themselves of indirect membership.

The benefits of the office are that it ensures speedy delivery of stock coupled to an irrevocable commitment to pay on the same day. All transactions are conducted through a secure computer network linking members with the office and the movement of stock depends upon the seller having sufficient stock available on his office account and the taker positively accepting an offer of stock.

The banks participating in the office, the London and Scottish clearing banks, have given an unconditional undertaking that at the moment of transfer from seller to buyer, the buyer's bank will pay to the seller's bank on the same day.

To cover the risk the buyer's bank takes on in such a transaction, the bank takes out a floating charge over stock already held in the customer's office account and over monies receivable by it for any stock subsequently transferred from that account.

The Bank said applications for membership of the office could be made provided the applicant had first arranged with an authorised bank to provide assured payments on its behalf. That would entail the provision by the applicant of a floating charge as security against the bank's undertaking to make assured payments.

Applicants wishing to choose the indirect method of participation should first make arrangements with a bank for assured payment, but the cost paid for the use of the system was a matter of negotiation with the office member providing nominee facilities.

Public services must improve, Howe declares

BY PETER RIDDELL, POLITICAL EDITOR

ONE OF the Government's key objectives in its third term should be improving the standards of public services, Sir Geoffrey Howe, the Foreign Secretary, urged last night.

The appeal – one of his rare statements on domestic politics – came in a letter to Mr Gordon Keymer, chairman of his constituency Conservative association in Surrey East.

Sir Geoffrey's central theme was the need to create a society "where growing national wealth can secure essential services for those who need them at standards matching the best in the world."

That, he said, would involve overcoming the still prevalent 'chipped white cups of Dover' mentality in public services." He argued that the standards accepted in some public services were "simply not in keeping with our achievements in the world."

Government policies on inner cities, schools, training, housing and the health service had to give higher priority to the convenience and choices of the consumer.

He argued that little short of economic disaster could turn events in the direction of the opposition, and that future political debate would centre on management of the market economy.

That, he said, meant "debating not only our economic performance, but also the social and moral context" within which the market operates.

"We have come a long way over the last eight years, but we have still a long way to go in tackling social tensions, tensions caused by generation gaps, racial differences, class and regional divergences."


Sir Geoffrey: consumer must have more choice

Describing the future of Britain as a Conservative future, Sir Geoffrey said the Government would have to secure its gains "without lapsing into complacency; to point towards new horizons without becoming tiresome preachers." He also warned against allowing success to go to the head.

He said June's election had been a watershed between a party crusade for a property-owning democracy and the establishment of "a new national common ground of politics."

Sir Geoffrey said: "There is no political, moral or intellectual challenge in sight to the liberalising Conservative policies which have released the spirit and the talent of our nation."

Government 'panicked into more privatisations'

BY OUR POLITICAL EDITOR

THE GOVERNMENT is being "panicked into wholly irresponsible privatisation sales at knock-down prices," Mr Gordon Brown, shadow Chief Secretary to the Treasury, said this morning.

Mr Brown estimated that "despite rushed announcements to sell British Steel, Brel [British Rail Engineering], with Girobank and possibly Rover to follow, the Chancellor is faced with a £5bn shortfall over his £15bn privatisation target for the next three years."

Those figures take into account final instalments from the sale of British Gas and BAA, and assume that the Treasury does not have to buy back any BP shares under the current safety-net repurchase offer.

If the Government has to buy back the BP shares, excluding those held by the Kuwaitis, the shortfall will be much larger.

Excluding BP, Mr Brown estimated that sale proceeds would be £4bn in 1988-89, £500m in 1989-90 and £1.3bn in 1990-91, compared with an annual target of £5bn.

Consequently, Mr Brown argued that the Government was being panicked into further privatisations, in particular "a wholly unacceptable early sale of the 49 per cent stake in British Telecom which would be bad news for industry, the taxpayer and millions of consumers.

"Any proposals to fill the privatisation hole by pushing ahead with the BT sale would be outrageous given the £2bn decline in its stock market value, the mounting dissatisfaction with its service and pricing policy and the possiblity of a reference to the Monopolies and Mergers Commission by its watchdog body, Oftel," said Mr Brown.

He claimed that "at a time when even the most enthusiastic champion of privatisation would suggest a pause in sales, the Chancellor is embarking on an ever more desperate search for family essentials he can sell now that most of the family silver has gone."

Legal Aid Bill is Trojan horse, Law Society says

BY RAYMOND HUGHES, LAW COURTS CORRESPONDENT

THE LEGAL Aid Bill is a "Trojan horse" because it leaves the future shape of the legal aid scheme entirely to regulations made by the Lord Chancellor, says the Law Society in a briefing to the House of Lords today.

The society calls on peers, who debate the bill at its second reading tomorrow, to demand that the main principles of the scheme should be spelt out in the bill.

Consultation by the Lord Chancellor should also be compulsory before regulations are made and draft regulations should be presented to Parliament before the bill completes its passage through the House.

The Law Society believes that key questions are still unanswered, such as how quality and level of service will be assured once legal advice or other areas are contracted out by competitive tender, and what will prevent the proposal to tie civil legal aid contributions to length of case, rather than to the applicant's resources, from becoming a deterrent to those seeking justice.

TSB chief denies boardroom division

By Eric Short

SIR JOHN READ, chairman of TSB Group, yesterday denied reports of a boardroom split over his retirement and the level of fees to be paid to Lazard Brothers, TSB's merchant bank adviser.

"There is no row on either issue," he said, adding: "Talk of a mutiny in the boardroom is nonsense." The Lazard fee relates to the bank's work in advising the TSB in its agreed £777m takeover of Hill Samuel.

Sir John said the fee was being negotiated in the normal way between the TSB executive and Lazard before submission to the policy committee for approval and then to the full board's consideration. He said the policy committee had not yet discussed the fee.

It was common knowledge, added Sir John, that he would be retiring in September, having reached 70.

He said the apppointment was in the hands of the headhunters, who had not yet produced a short list of candidates.

Sir John was "perplexed" as to what was causing the rumours.

Opren case highlights claimants' burden

A.H. Hermann examines the differences between handling claims on either side of the Atlantic

THE OPREN case, in which some 1,500 arthritis sufferers are claiming damages from Eli Lilly, the US pharmaceutical company, and from the Attorney General as the representative of the UK authority licensing medicines, is still before the court.

However, irrespective of its outcome, the case illuminates sharply the different workings of the relevant laws in the UK and in the US. It also makes it possible to assess the likely practical changes introduced by the 1987 Consumer Protection Act.

Finally, it provides a fascinating picture of imaginative judicial innovations and desperate interventions by charitable benefactors, to compensate for the absence of proper class action procedure and of a contingency fee system for the remuneration of lawyers representing the claimants.

The gap between the US and UK laws is in this case easily measurable: the global amount offered by Eli Lilly to settle the claims of the 1,200 alleged victims, though still secret, is believed to be £2.7m plus £3m legal costs.

That is less then some payments, it seems, to individuals who have alleged the same sort of injury from Opren in the US. One US claimant is reported to have received as much as £3.3m.

One of the reasons that manufacturers are prepared to offer, much higher settlements in the US is that the claim is so much easier to prove. The claimant has to convince the jury merely that the injury was caused by the drug.

He does not have prove, as in the UK, that the manufacturer was negligent. Another reason is the bias of the US jury in favour of an individual facing a large corporation. There is also the very high motivation of the attorneys working for a substantial share of the damages.

They are able to impress the jury by courtroom drama. There is also a readiness on the part of juries to anticipate that some of the damages will go to the attorney and to award treble punitive damages.

How far that can go is illustrated by last week's order by a federal district judge against A. H. Robins. The company was instructed to set aside almost $2.5bn to satisfy claims of nearly 200,000 women in respect of injuries alleged to have been caused by the intrauterine contraceptive Dalkon Shield. Robins will not be the first company forced by the magnitude of the award to seek the protection of the US bankruptcy law.

Companies sued in the UK will need not fear such awards – and future UK claimants of the Opren variety will not be much better off – even when part one of the 1987 Consumer Protection Act becomes effective on March 1. This act will apply only to products supplied by manufacturers after the act came into force.

The act is designed to implement the EC product liability directive, and although it is drafted differently provides that it should be interpreted so as to comply with the directive. That, may simplify claims for damages in respect of death, injury or damage to personal property caused by products which are not as safe "as persons are generally entitled to expect."

Such expectations will, of course, depend on the method of marketing and the packaging of the product and any instructions and warnings supplied with it. One can only hope that this will convince both industry and the authorities that there is some advantage in enclosing data sheets and warnings of side effects in each pack of medicines supplied to patients, as is the legal requirement in most Continental countries.

It may be, though, that courts will not find that information provided only to doctors satisfies the requirements of the act.

Under the act there will be no need to prove negligence as now, but the manufacturer will be given another defence. The act embodies the "state of art" exemption allowed by the EC directive. Although this exemption places the burden of proof on the manufacturer it will hardly give much joy to the consumer or victim of an unsafe drug. The cost of litigation in terms of time, money and nervous energy will deter most from pursuing their claims in court.

The aim of making product liability "strict," namely to avoid complicated litigation, will not be achieved by the 1987 act.

The deterrent of legal costs is all the more effective in the UK as English courts do not provide for "class actions," used in the US to dispose in single proceedings of a large number of related claims.

Sir John Donaldson, Master of the Rolls, believes this is something which should be looked at and possibly adopted. Indeed, Mr Justice Hirst went in the Opren case as far as he could to approximate the advantages of the class action by agreeing to select a few "representative" actions to decide the liability issue for all 1,500 plaintiffs.

He also decided that the costs should be divided equally between the plaintiffs. This still leaves unsolved many problems which are solved by the US procedures.

The US class action is simplified by the contingency fee system which makes costs proportional to individual awards.

In the Opren case Mr Justice Hirst is faced with a much more complicated situation. Most of the claimants receive legal aid and, as he said "should be aware that should they reject the settlement offer against legal advice there must be a risk that their legal aid certificates would not be continued."

By contrast, the non-legally-aided plaintiffs can continue litigation if they so decide because they are assured of the support of their benefactor Mr Godfrey Bradman.

A contingency fee system would make plaintiffs independent of both pressures and charity. Nor is it more expensive: the share of the US attorneys is usually between 25 and 40 per cent, while in the Opren case the settlement provides 52.6 per cent for legal costs.

Neither US nor the UK system can deliver the compensation in reasonable time. Most of the Opren claimants are elderly and they have already waited five years. They lost most of the time by an unsuccessful attempt to bring the case before US courts.

The judge said that trial could not begin earlier than two years after the selection of the representative cases. It would then last several months and appeals could take additional years. Also US class actions take years - some as much as eight or ten years.

The only humane solution seems to be to take compensation for disasters of this sort out of the hands of courts as far as the victims are concerned. These should be compensated quickly out of a public fund which would be in a much better position to settle with the manufacturer or take them to court if necessary.

UK NEWS

Superconductor research centre to be chosen

BY JANE RIPPETEAU

THE SITE of the UK's first university research centre is expected to be chosen on Wednesday by the Science and Engineering Research Council.

The centre is intended to centralise work among several universities, specifically in the area of warm-temperature superconductivity.

Three applicants out of seven have been shortlisted. They are Cambridge University; a consortium led by Liverpool; and a joint application from Birmingham and Warwick.

The Government expects the centre, the first of two for superconductor research, to help to keep the UK at the forefront of world research in the new technology involving electricity transmission without resistance.

Once technical hurdles are cleared, the superconductors are expected to have multi-million-pound applications which will include cheap power generation, medical scanners and more efficient computers.

Some members of the academic community feel the £4m-£5m proposed spending will not be enough to keep Britain competitive.

The US Government has said it is in the process of awarding $55m in superconductor research funds, on top of what private industry is itself spending.

Some scientists also complain that, by focusing the money tightly on the centres, significant research programmes dispersed around the UK will be deprived.

There is no certainty that specialists at universities not selected for the centres will move to the selected locations.

For instance, at Birmingham, Dr Christopher Muirhead and Dr Colin Gough, the two programme chiefs, have both indicated that they would be unlikely to move even if their university's application were to fail.

Superconductors are materials that transmit electrical current without loss of energy. Those in use today function only when chilled to absolute zero (0 deg Kelvin or minus 273 deg Celsius).

In the last year, compounds have been found that become superconducting at about 93 deg Kelvin (minus 180 Celsius) - a level of chilling that is much easier and cheaper to reach.

In spite of their promise, the new materials cannot yet be used in commercial applications. They are too brittle, unstable and difficult to fabricate into usable forms such as wires or thin films. Researchers believe, however, that overcoming such obstacles is largely a matter of time.

Nick Bunker on US property/casualty insurer St Paul's bid for London insurance broker Minet

Midwesterners find their window on the world

THE RECEPTIONIST at the London headquarters of Minet Holdings was in no doubt last Thursday evening about the future of her company, the world's eighth largest insurance broker.

"It's official," she was telling callers. "We're now owned by the Americans."

She was a touch premature. The success of last week's agreed bid for Minet by the Minnesota-based St Paul Companies, a large property/casualty insurer, is far from being a foregone conclusion. Manhattan-based Corroon & Black, an insurance broker with a 29.9 per cent stake in Minet, has not yet made its intentions clear about the bid, which values Minet at $400m.

But the receptionist was right to sound dramatic. A bid for a big-league London insurance broker by a large property/casualty insurance company is a radical departure for the industry, and for Lloyd's of London, where Minet is a big player.

The rationale perhaps looks simpler for Minet than for the Midwesterners. Mr Ray Pettitt, Minet's chairman, says the deal will give the group "the tremendous financial underpinning" of support from a US insurer with more than $2.6bn (£1.4bn) of premiums in 1986.

Does Minet really need it? The company is best known for its global leadership in broking professional indemnity insurance for big law and accountancy firms.

But Dr Peter Virgin of Morgan Grenfell Securities says: "Never

Ray Pettitt, Minet chairman: 'Financial underpinning'

has the future of the UK insurance broking industry been as uncertain as it is now." He believes that in three years most Lloyd's brokers like Minet will be owned by insurance underwriting interests. Other analysts simply foresee more mergers between brokers, like this summer's marriage between Willis Faber and Stewart Wrightson.

The difficulties faced by the big Lloyd's brokers are showing up clearly in their figures. For instance, Minet's turnover rose 8 per cent to £58.4m in the first half of 1987. But its expenses grew 13.4 per cent and pre-tax profits crept up only marginally to £19.32m.

One key point for brokers such as Sedgwick, Willis Faber and Minet is that much of their income is US dollar denominated. The dollar's slide is slicing back their income when premium rates are entering a cyclical downturn across much of their business, especially in the US, and for marine and aviation business.

Demand for shipping and oil and energy insurance – another Sedgwick and Minet speciality – is flat. The growing complexity of handling insurance risks worldwide is increasing the brokers' costs. The industry is now turning capital-intensive, as corporate clients demand higher standards of service. Mr Pettitt cites the need to spend more on electronic data processing as one reason why he welcomes St Paul's backing.

It is harder to work out why St Paul's wants to buy Minet. Mr Robert Haugh, St Paul's chairman, denied that the bid was aimed at thwarting any takeover ambitions harboured by Alleghany, a New York steel and insurance group which holds 8.4 per cent of St Paul and wants to go to at least 15.1 per cent, apparently against St Paul's wishes.

Mr Haugh said Minet, with its management left in place, would be St Paul's "window on the world." There are good reasons why it might need one.

About 28.8 per cent of its premiums last year came from medical malpractice insurance, often a particularly unprofitable line of business. St Paul has shared in the US property/casualty insurance industry's recent powerful profits recovery, but its exposure to lines such as medical malpractice has tended to leave it underperforming its peer companies.

In 1985 its combined ratio, measuring claims and expenses as a percentage of premiums, was 120.8 against a sector average of 115.7. Last year, it was 110.5 against an average of 106.8.

Not surprisingly, St Paul plans to diversify into a broader-based insurance operation, with underwriting, broking and investment banking interests. "This business mix should provide some protection against the cyclical nature of the underwriting market," St Paul says.

It nows owns John Nuveen, an investment bank, Swett & Crawford, an insurance broker, and RFC, a US reinsurance intermediary. It first took a stake in Minet in 1981, and went to its present 26 per cent shareholding in 1983. One reason why St Paul's wants to buy brokers is that it is a so-called stock agency company, shareholder-owned and distributing its products in America via about 5,850 independent agents. A recent Coopers & Lybrand survey showed that efficiency of product distribution was the biggest single worry of stock-agency insurance company chief executives.

The aim of building up a network of brokers based around Swett & Crawford was to create

LARGEST LLOYD'S INSURANCE BROKING GROUPS

Company name	1986 turnover
Sedgwick Group	£640.4m
Willis Faber	£169.7m
C.T. Bowring	£164.3m
Minet Holdings	£121.9m
Jardine Insurance Brokers	£109.9m
Alexander Howden Group	£101.4m
C.E. Heath	£99.1m
Stewart Wrightson*	£95.1m

Source: Business Insurance magazine. *Wrightson has now merged with Willis Faber.

"a one-stop market for the retail agent for standard products, customised coverages or responses to unique needs," according to St Paul's 1986 annual report. Swett is an excess and surplus lines broker, which specialises in finding a home for unusual risks such as directors & officers liability insurance, which independent agents cannot handle themselves.

Mr Haugh was keen on Thursday night to dispel the idea that St Paul was pioneering "vertical integration" between insurers and brokers. Los Angeles-based Swett places only 15 per cent of its business with St Paul group companies, he said. But Minet, with its presence in the London insurance market, would provide "an additional facility available to our retail distribution system."

Yet this is sensitive ground, especially at Lloyd's. In 1985, it did not object when San Francisco-based Transamerica, a holding company with big insurance interests, took 39 per cent of Sedgwick's total shares and 29 per cent of its voting shares. Since 1978, when Frank B. Hall bought Leslie & Godwin, American brokers have owned Lloyd's broking houses. But the conventional rule is that insurance companies cannot own more than 26 per cent of a Lloyd's broker such as Minet, because of the danger of interference and conflicts of interest.

On November 19, a Lloyd's broker regulation working party report produced a proposal to scrap the 26 per cent rule. But the report's small print showed that some Lloyd's underwriters opposed any shareholding links between brokers and insurers.

In the last analysis - in the light of the Transamerica-Sedgwick situation and brokers' commercial problems - Lloyd's will find it hard not to follow the report's recommendation and allow the St Paul-Minet deal. But if it does so, it will be opening the way, for good or ill, to another wave of restructuring in the ownership of the brokers on which it relies.

CONTROLLING US MARKETS

Pressure is building in Congress for reimposing some curbs on Wall Street, writes Lionel Barber

Suddenly regulation ceases to be a dirty word

DEREGULATION is a dead duck, proclaimed Mr James D. Robinson, chairman of American Express, as he pondered the impact of October's stock market meltdown.

If Mr Robinson is to be believed, the Crash of '87 signals the end of an era, a period which peaked with the 1980 landslide election victory of President Ronald Reagan leading a largely anti-government, anti-regulatory crusade.

During the Reagan presidency, the number of financial instruments multiplied, driven by high-speed technology manipulated by hugely inventive bankers and traders. The equity markets boomed. Investors and practitioners alike grew rich. Wall Street was given its head.

A political reaction in the US Congress to the record drop in the Dow Jones index is now considered inevitable. Lawmakers like to tell how their telephone lines melted in the week following Black Monday. As the market fell and losses mounted, constituents had one clear message: "Do something!"

Four areas appear ripe for regulatory reform: insider trading, hostile corporate takeovers, computerised ("programme") stock index trading, and the hottest topic of them all, the Reagan Administration-backed repeal of the 1933 Glass-Steagall Act which established the separation of banking and commerce and the prohibition of commercial banks from engaging in the securities business.

Most Congressional legislation will not be ready until next spring, at the earliest. This reflects not only the difficulties in shaping a collective will within a heterogeneous Congress bereft of party discipline. Many members of the House of Representatives and Senate want to read the Brady Commission report on the October 23 crash, and the separate investigations by the Securities and Exchange Commission and General Accounting Office before casting their votes.

The softest target is probably programme trading. Most lawmakers expect action as soon as the Brady Commission goes public with its conclusion and recommendations, expected in early January. Senator John Heinz, the Pennsylvania Republican, has already introduced a bill calling for the Federal Reserve, the US central bank, to impose margin requirements for stock index future trading.

Senator Heinz may well have been influenced by the former Fed chairman, Mr Paul Volcker, who told the New York Times last month: "It's very hard not to rail at the index futures markets – I don't think these techniques add very much to the sum of human endeavour."

Like Mr Volcker, Senator Heinz and many other legislators suspect that the technical capabilities of communications and computers have naturally increased the volatility of financial markets, at least in the short-run. And yet action in this area does not necessarily spell the beginning of a Washington attack on Wall Street. Indeed, it may even be premature to forecast a new era of Congress-inspired "re-regulation" in the US financial markets.

The one fear that unites both the Republican and Democrat parties is that they could in some way be labelled responsible for the market collapse. So when Mr James Baker, the US Treasury Secretary, suggested recently that some anti-takeover provisions contained in a House tax bill may have unsettled the markets, the effect was instantaneous. Both the House Speaker, Mr Jim Wright, and the powerful chairman of the House Ways and Means Bill, Mr Dan Rostenkowski of Illinois, backed off the bill.

As a result, a House congressional aide predicted, two provisions in the tax bill will be substantially watered down: a clause disallowing interest deductible for debt incurred in a hostile takeover, and, similarly, interest expenses of more than $5m a year in buying back a majority of a company's stock (businesses regularly adopted the "buy-back" mechanism as a defence against corporate raiders).

On insider trading, despite the headlines and the police crackdown on Wall Street, Congress is still deadlocked on how to set a legal framework for tackling the abuse. Bipartisan pressure from the US Senate forced the SEC finally to come up with its own definition of insider trading and a bill is pending. But the reality is that everyone is waiting for the Big Man from Michigan, Congressman John Dingell, chairman of the omnipresent House Energy and Commerce committee which can make or break financial legislation on Capitol Hill.

Mr Dingell, built like an All-Pro football linebacker, has yet to throw his weight behind a bill. So far, he has been content to point out that clever lawyers are more than likely to find loopholes in a strict definition of insider trading. Meanwhile, he has started pushing his own bill governing "golden parachutes" for executives (multi-million dollar pay-offs to senior executives who lose their jobs as a result of a successful hostile bid), simplified rules on proxy voting, plus some 12 other provisions aimed at making life fairer for the small shareholder.

Paul Volcker (left), the former Fed chairman, has never been a deregulation enthusiast. Alan Greenspan, his successor, who is, has been compelled to trim his deregulatory sails.

Critics question how serious Mr Dingell is in translating headline-grabbing public hearings and populist issues into workable legislation. To which Mr Dingell's supporters argue that his methods have often proven effective in cajoling, without legislative fiat, all sorts of businesses (including the accountancy profession) to put their houses in order.

Mr Dingell's views will also be crucial to the fate of banking reform in the 100th Congress.

For five years at least, the Reagan Administration has sought to sell the case for deregulating bank activities to a sceptical Congress. The rules were, after all, set in place after the Crash of 1929; why, after the Crash of '87, should the case be any stronger than before?

The most obvious reason is the absence of Mr Volcker at the Fed. He was never a great enthusiast for deregulation, least of all the desire to scrap Glass-Steagal. "It's ironic," he said, "that all the trumpeting now of these protections stemming from the 1929 collapse is being done by the same sources that have been trying to get rid of them and remove all the inhibitions of the free market."

Mr Alan Greenspan, Mr Volcker's successor as Fed chairman, is a very different animal. A long-standing supporter of deregulation in banking, he believes that unless US commercial banks are allowed to compete in the securities business, they will decline to the point where their experience and knowledge built over decades will be lost to the community.

But Mr Greenspan has trimmed his deregulatory sails in his appearances so far on Capitol Hill. Unlike President Reagan's failed Supreme Court nominee, Judge Robert Bork, Mr Greenspan has curbed his intellectual free-market flair and tried to build bridges with Congress, most notably the chairman of the Senate Banking committee, Senator William Proxmire of Wisconsin.

Senator Proxmire is something of an institution among Senate Democrats. Best known for his "Golden Fleece" award, handed out to those most adept at wasting public money, Senator Proxmire has not had a major piece of legislation to his name in his 30 years in the upper chamber. Banking reform is his last big chance.

Senator Proxmire's switch in favour of repeal of Glass-Steagal is motivated by more than self-interest. First, he is not advocating wholesale repeal of the act; he would only allow banks to engage in securities activities through separately capitalised holding company affiliates. Hence, he favours the "fire-wall" concept whereby the bank and security operations would be insulated from one another with appropriate supervisory back-up.

Secondly, Senator Proxmire says he is convinced that unless the regulatory strait-jacket is loosened slightly, commercial banks will be forced, through lack of profitable business, to merge, thus creating concentration in the industry and throttling competition in the industry.

Mr Greenspan – along with the other major US financial regulatory bodies – has fallen behind the bill sponsored by Senator Proxmire and the ranking Republican on the committee, Senator Jake Garn of Utah. Senate insiders note that, unlike Senator Garn's earlier efforts, this legislative bundle is likely to be sent to the House without delay – which will pile up the pressure for action.

In 1984, when Senator Garn chaired the Banking committee in the Republican-controlled Senate, the legislation left so late in the session that his House counterpart, Congressman Fernand St Germain, was able to let it die. Mr St Germain – the subject of a long-running ethics inquiry which ended in partial exoneration this year – is currently in a less strong position to block legislation.

The greater threat comes from within the committee itself. Two freshman Democrats – Senators Tim Wirth of Colorado and Bob Graham of Florida – have introduced a bill which is far more ambitious than Proxmire-Garn. Calling for a new umbrella regulatory authority, their bill also provides for a new "National Electronic Payments Corporation" to expedite large dollar electronic payments in the financial system.

Last week, yet another version, this time from Senator Alfonse D'Amato of New York and Senator Alan Cranston of California – sprouted forth which would break down totally the barriers between banking and commerce.

Senator Proxmire's supporters believe that the rival bills are cover-attempts to torpedo the Proxmire-Garn legislation. By going much further than even the Administration wants, they reckon the bills are designed to stir up opposition within the securities industry (the most likely to be affected by banks' future incursion into their business), and among the insurance and real estate lobbies.

The one factor running in Senator Proxmire's favour is that Congress has promised to act on banking reform rather than, as in the past, putting off the question by slapping an annual moratorium on change. The present moratorium expires next March 1.

Most lawmakers agree that Congress could extend the moratorium in the event of a promising bill emerging from the Senate and the prospect of action six to nine months later. On the other hand, if Mr Dingell does not like what he sees, the bill could be "DOA" – Dead on Arrival – and the whole process could start all over again.

Behind this byzantine manoeuvering lies the long shadow cast by the Crash. To suceed, Senator Proxmire, Mr Greenspan and their followers must persuade Congress that the events of last October really should be divorced from the long-term issue of the need for change in the banking industry. They must also overcome a populist suspicion of commercial banks which goes back more than 150 years.

One experienced legislator noted that the Congress rarely likes to make drastic reforms when faced with a violent shock. It usually takes strong vision from outside to do the trick.

On Capitol Hill, the realisation is that the President may once have provided that vision but may no longer be capable as he nears the end of his presidency.

Sweet are the uses of bureaucracy

ANTHONY HARRIS
in Washington

LIVING from one set of monthly trade figures to the next is a relatively new experience for the US financial markets, and any veteran of the long British agonies of the 1960s and 1970s must itch to pass on a few recipes for statistical hangover cures. That may sound unduly flippant, but some subjects are too painful to be treated entirely seriously; and it is seriously true that the US trade figures are presented to a formula which might have been designed to show them in the worst possible light.

To start with, the first US trade estimates are presented on a customs clearing basis. This method is obviously convenient for the officials concerned, since the documents they handle record values on landing as imports or leaving as exports. The procedure is so simple that, in pre-computer days, mid-month estimates of the trade flow were produced for the British Cabinet simply by weighing the pending documents in the Customs department and applying an average value. The figures were astonishingly reliable.

The result of this method, however, is to include freight and insurance in the value of imports, but to exclude them from the export figures. This has no economic significance, since what is lost on the merchandise figures is made up, so far as the facts justify, on the services account. It is quite another matter, though, politically. Visible merchandise has a special emotional meaning for politicians on both sides of the Atlantic, especially for those of a protectionist turn of mind.

In Britain it is now more than a decade since the Department of Trade started publishing the figures for imports net of insurance and freight, presenting both sides of the account on a uniform f.o.b. (free on board) basis. By a quirk of legislation, the Bureau of the Census, which produces the US trade statistics, has to wait for two days before presenting this more soothing – and indeed less distorted – version.

The import figures which will appear on your screen today will be about 10 per cent lower than the figure which made such a bad impression on Thursday. This will help economists, who like to see imports recorded on the same basis as they were when reported as exports, but too late to avoid market shock. The bureau would love to adopt a more British approach and there is a clause which would allow it in the Trade Bill going through Congress. It remains to be seen if it will survive the contentious debate on this bill.

A more serious problem is that the US figures are not at the moment seasonally adjusted. They were so adjusted until 1985 and they will be adjusted in 1989; but for the moment, while the stability of the world financial system may depend on how the trend of US trade is judged in the markets, it is almost impossible to estimate that trend from month to month.

It is also, incidentally, impossible for the US Secretary of Commerce, Mr William Verity, to adopt an old Department of Trade ruse and suggest that any erratically bad figure could be the result of faulty seasonal adjustment. Perhaps, with a name like that, he would be reluctant to stoop to such a suggestion; but his own fastidiousness will not be tested, because the Bureau of the Census is already so fastidious on his behalf.

The adjustment was suspended in 1985 because of what is known as the hang-over problem – the fact that because of ordinary administrative delays, up to half of all trade used to be reported in the wrong month. Although this has never unduly worried London, it offended the bureau's idea of seasonality.

The problem was tackled first by delaying publication for two weeks to allow the paper to catch up – which explains why the US import figures always appear some time later than the export figures to the US from her main trade partners. Too late, unfortunately, because on January 1 the developed world will switch to a new, harmonised system of trade reporting (mainly concerned with definitions of product categories) and the bureau will need a year's experience of the new basis before it can make a first shot at seasonal adjustment. Sweet are the uses of bureaucracy.

Seasonal adjustment on a uniform reporting basis would constitute an entirely respectable improvement in US trade presentation; but Britain in her extremity invented a number of further adjustments. These are slightly less respectable; but given the fact that the published US current account figures quite certainly overstate the deficit, they may be worth examining.

One, unfortunately, would not survive the Atlantic crossing. The British concept of erratic items – mainly aircraft, oilfield equipment and entrepot trade in precious substances – might actually make the US figures look worse if they were excluded. Britain's imports are more erratic than her exports; for the US, it is probably the other way round. All the same, something might be done about gold (and would have helped on Thursday, when a jump in gold imports made a significant bump in the figures). It might be more realistic in current circumstances to treat gold as a financial investment rather than as merchandise. It would certainly be more reassuring.

Some other British stratagem might be adopted almost unchanged. Perhaps the most fruitful was invented by the late Lord Balogh – the Advanced Revision. Lord Balogh discovered that export figures were persistently revised upwards by about 2 per cent within a few months, reflecting some administrative oddity. He simply arranged that the 2 per cent should be added to the figures before they were published, and the subsequent history of revisions suggests that he got it about right. Effective, if not for the fastidious.

It has also proved helpful in the UK to include an estimate of the services' surplus with each month's figures for the merchandise deficit. This gives a pretty inaccurate guide to the current account, but less inaccurate than the bare merchandise figure.

The main aim, surely, should be to ensure that the headline figure is not misleadingly worse than the facts justify. Interpretation, which used to be a great obsession with the Department of Trade, was probably an agreeable waste of time. The solemn briefings in search of rather one-sided "special factors", which were supposed to explain away the worst of the news, never did carry much conviction. But the current US facts are certainly grim enough to justify every honest effort to avoid making them look still worse.

INTERVIEW

Guarding the credit of Pretoria

Anthony Robinson talks to Gerhard de Kock, governor of the South African Reserve Bank

GERHARD DE KOCK, governor of the South African Reserve Bank, leans back against the black leather sofa in his office on the 32nd floor of the brand new Reserve Bank building in Pretoria and confides: "It was hell being governor two years ago - it's a lot more pleasant now."

He is not referring to the comforts of his new office, and its views over the rolling Magaliesburg Mountains and the Italianate pile of the governmental Union Buildings, but to the extraordinary turnround in South Africa's financial standing since the crisis of August 1985.

That was when Chase Manhattan and other US banks refused to roll over their South African credits and precipitated a rush for the exit. Their decision forced Pretoria to impose a partial moratorium on $14bn of its total $24bn foreign debt, to bring back the two-tier rand system, and to tighten exchange controls. There was a further setback in October last year, when the US Congress overruled President Reagan's veto and passed the comprehensive Anti-Apartheid Act at the same time as bankers assembled for the annual IMF and World Bank meetings.

Sanctions have badly hit coal and other commodity exports. The roll-call of US disinvesting companies has lengthened to 143 with the departure in recent weeks of Ford, Emhart Corporation and Merck, the pharmaceuticals company, while the UN General Assembly has renewed its call for comprehensive and mandatory sanctions.

Despite the media restrictions, and the repression of violent protest through a mix of coercion, detention and "good government", the perceptions of millions around the world remain broadly those moulded by nightly scenes of televised violence and brutality and memories of a belligerent President P.W. Botha defiantly waving his finger before a global TV audience.

Few South Africans have a clearer idea of how difficult it was then to be a white South African official than De Kock. He flew to Europe and the US to inform commercial and central bankers of the steps Pretoria was being forced to take in the light of the US exit and the impossibility of raising fresh loans. Now a lined but relaxed governor admits: "We ourselves have been surprised at the improvement in our situation since then. We were never over-borrowed by any standards. What we faced was a liquidity crisis. But no country is able to repay all its loans overnight."

Yet over the last three years South Africa – a capital-hungry developing country – has been obliged, in De Kock's words, "to act like a little Switzerland, and export capital." At the cost of a painfully slow recovery from a steep recession, South Africa has run three years of current account surpluses, equivalent to between 3 and 5 per cent of GDP.

These surpluses have been used not only to pay off $4.8bn of the original $24bn debt, including all the tranches of an IMF loan, but also to service the entire debt. South Africa has punctiliously respected all interest payments and the terms of the respective debt rescheduling agreements. South Africa loans are performing loans, despite the "debt standstill," De Kock adds.

An increasing number of creditors with funds frozen under the standstill are also taking advantage of the "exit clause" in the March 1987 three-year rescheduling agreement. This allows banks to convert their frozen short-term loans into long-term debt repayable over 10 years.

Many of the less worldly members of an often deeply provincial Government argued that South Africa should react to sanctions and disinvestment on a tit-for-tat basis. It was partly due to the arguments of men like De Kock that, in the end, the decision was made to take a stand on opposition to sanctions of all kinds, including South African retaliation against those perceived as being most hostile to Pretoria: "Some of the guests at the inauguration of the new Reserve Bank were surprised to be offered Cuban cigars. It wasn't a gimmick – we still trade with them," De Kock says.

The non-discriminatory principle applied to the debt "standstill" means that US banks, which precipitated the crisis (on the principle "if you are going to panic, panic first"), are treated in the same way as European banks – including those from Switzerland and Germany, which not only criticised US banks for their actions in 1985 but have continued quietly to extend trade and other credits throughout the last few difficult years.

Ironically, shortage of capital is not the reason why the South African economy continues to tick over at much lower growth rates than would be justified by the strong current account surplus, the sharp rise in company profits, negative real interest rates, and other fundamentals which could form the basis for the 4 per cent growth which De Kock believes is achievable in 1988.

"In a way, it is frustrating to point to the fact that we have repaid $4.8bn in three years and doubled our gold and currency reserves over the last year. What I would like to be able to worry about is rising interest rates, a declining surplus and pressure on the balance of payments. That would mean that the economy was expanding fast enough to absorb unemployment and cope with the 4 per cent annual urban population growth."

At that point South Africa would need more foreign capital. At the moment, however, the main constraint on growth is not external, but the lack of domestic confidence. This is shown by the five-year decline in private fixed investment and a reluctance to spend, especially by white consumers hard-hit by a combination of inflation and higher taxes.

By way of partial compensation, however, De Kock interprets a recent sharp rise in the banknote component of the M3 money supply to indicate a thriving parallel economy in the black townships. With gold hovering around $490 an ounce, and heavy rainfalls heralding a bumper maize harvest, business confidence generally is rising, he says – despite the stock exchange crash. Even here De Kock believes that South Africa is better placed to weather the storm because of the painful but necessary restructuring which has taken place in the economy over the last three years.

On more delicate ground, he concedes that the growth of a labyrinthine bureaucracy and of government spending are becoming a major burden. "But it is difficult to cut government spending and at the same time honour commitments – for example to equalise education opportunities for all races within 10 years and to implement pay parity for all teachers. The world is always calling on us to do more, but it's expensive, and has to be paid for."

Meanwhile De Kock notes that despite sanctions, South Africa has managed to increase its trade surplus; while disinvestment, far from bringing the economy – and Pretoria – to its knees, has forced a once highly critical business community to rally behind the Government and concentrate its energies on taking over foreign-owned companies and circumventing sanctions by seeking new markets in Taiwan, South Korea, Latin America and other newly industrialising countries.

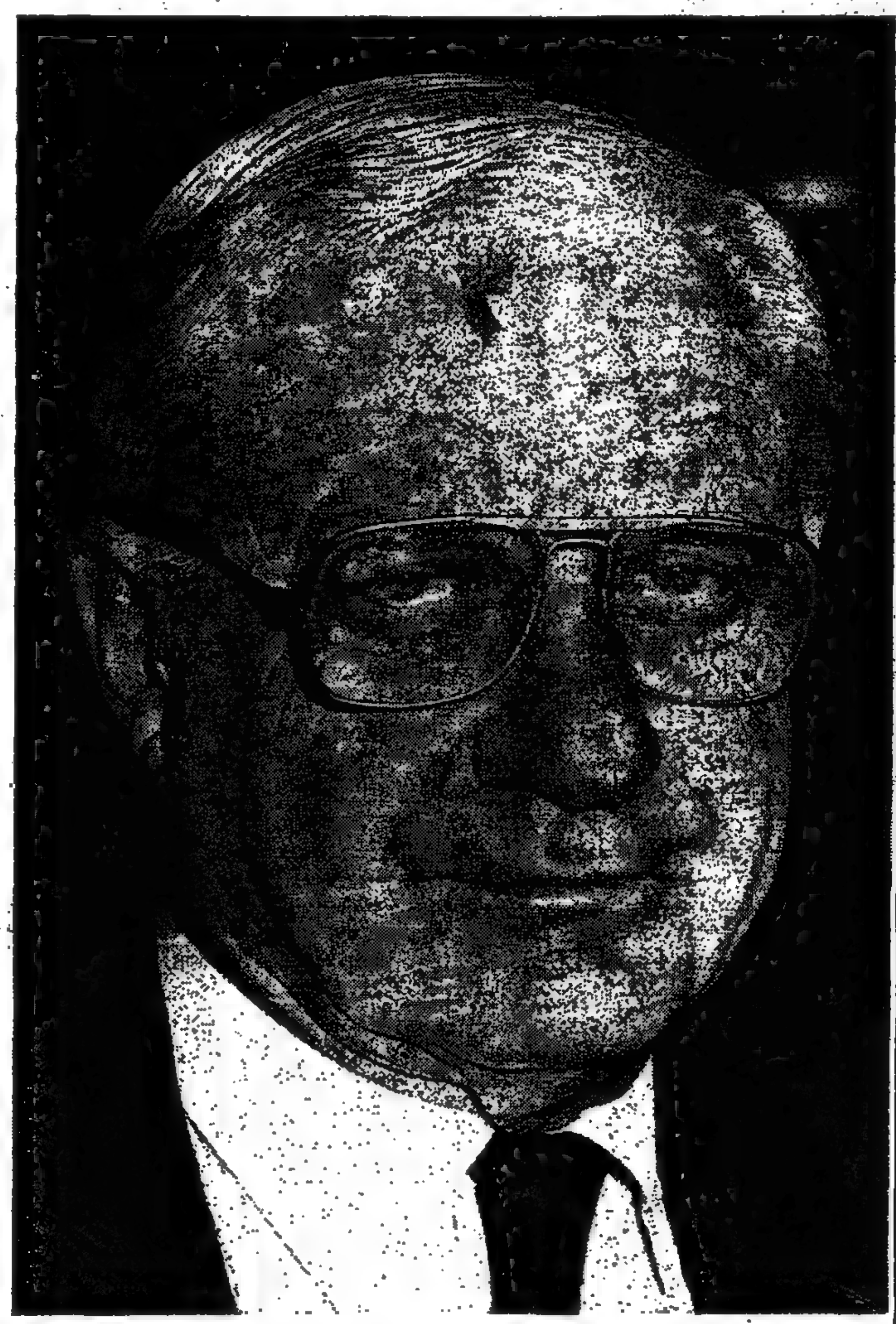
"It used to be my private theory, but it's now an established fact – sanctions and disinvestment have not forced Pretoria to speed up change. On the contrary: if foreign companies had stayed and invested more, we would be further down the road to reform and elimination of the vestiges of apartheid. Reform is taking place – nothing and nobody can stop it. You can slow it or accelerate it, but you can't stop it. What foreigners should ask themselves is whether their actions will slow or speed up the pace. Experience shows that sanctions and disinvestment contributed to the Conservative Party becoming the official opposition in the May elections and forced business to divert its energies into busting sanctions and profiting from disinvestment. The net result has been counter-productive for the sanctions lobbyists. It has slowed the pace of reform."

De Kock is a 61-year-old Afrikaner and son of Dr Mike de Kock, another distinguished governor. He has central banking in his blood. He took his PhD at Harvard after graduating in economics from Pretoria University and cultivated some lifelong friendships with other bankers and central bankers during a three-year spell as an alternate executive director of the IMF between 1968-71.

He is in high demand as a speaker at conferences and dinners: he is a master of the one-liner, able to simplify the complexities of high finance. His composure, integrity, good humour and optimism have done much to win back a grudging admiration for South Africa's stoicism under pressure, which even Pretoria's critics find difficult not to concede.

● PERSONAL FILE

1926: Born Cape Town.
1947: Graduated from Pretoria University.
1949: Married Jocene Hitchcock; they have two sons and one daughter.
1950: Graduated as PhD in economics from Harvard.
1951: Senior economics lecturer Pretoria University.
1966: Special economic adviser to Treasury.
1968-71: Alternate executive director IMF.
1977-80: Special economic adviser to Minister of Finance.
1981: Governor of reserve bank.



Sources and disclosure

A FINANCIAL journalist was last week ordered by the House of Lords to reveal his source of information to two inspectors appointed by the Trade and Industry Department to conduct an inquiry into suspected leaks from government departments of price-sensitive information about takeover bids.

Since the legal arguments appeared to be finely balanced, there is a natural feeling among the more ardent supporters of press freedom that only an innate, judicial antipathy towards the media could have tipped the scales in favour of official investigation as opposed to investigative journalism into insider dealing. Such a feeling is fostered by some odd legal reasoning.

The question for legal resolution was the precise ambit of a section in the Contempt of Court Act 1981. Section 10 of that Act provides that no court may require a person – not just a journalist – to reveal the source of information contained in a publication for which he is responsible, unless it is established to the satisfaction of the court that disclosure is "necessary in the interests of justice or national security or for the prevention of disorder or crime." Was the pursuit by the two inspectors of the identity of the journalist's informant "necessary for the prevention of crime?" Thus the court had to grapple with the meaning of the phrase used by parliament to convey its intention about the proper scope of the protection of sources of information.

The leading opinion of the Law Lords was delivered by Lord Griffiths. "Necessary," he said, was a word in everyday use. So it is that in the language of the law it has a more precise and definite meaning that is also consonant with primary dictionary meanings. It means something distinctly more than "justified." And the analogue of dictionary meanings includes indispensable, essential, compelling, obligatory and fundamental. All these words should propel any interpreter of the word towards a limited inroad upon the principle of non-disclosure proclaimed by parliament. Yet Lord Griffiths said the meaning of "necessary" lay somewhere between "indispensable" and "useful or expedient." The nearest paraphrase he could think of was "really needed." Tacking on the epithet of emphasis does not assist the process of uncovering the intention of parliament.

The judicial inclination to whittle down the need to protect sources of information was even more apparent when the Law Lords considered the "prevention of crime." At least here there was the admission that the phrase was capable of more than one construction. The narrow construction, favouring only a limited requirement to disclose, is that it must appear probable that in the absence of disclosure by the journalist further criminal acts are likely to be committed. That was indeed the construction preferred by Mr Justice Hoffmann when he heard the case earlier this year and decided in favour of the financial journalist. Did not parliament intend to convey a situation in which identification of the source of information would positively aid in preventing in the future a particular identifiable criminal event ?

While it is true that discovery of the authors of particular crimes may stem the tide of continuing criminality, there is not inevitably a causal link between the detection of an offender and the prevention of further crimes. The more serious the criminal activity, the more ready can there be an assumption that investigation of past offences will nip further criminality in the bud. The Law Lords made no distinction between the relative gravity of criminal conduct.

Lord Griffiths said that the task was "to probe into and lay bare the whole dishonest web of suspected insider dealing." However serious may be the abuse of information obtained by a person acting in an official capacity, the offence of insider dealing does not require any element of dishonesty. It might have been more helpful had parliament defined the scope of disclosure as relating only to the prevention of serious criminal events.

JUSTINIAN

On this score the Law Lords have rationality in their favour. The prevention of "crime" carries a very different connotation from prevention of "a crime" or "of crimes." In the broad sense of the phrase – seeking to control unacceptable and punishable social behaviour – crime prevention is a matter of vital public interest. To that end investigators and detectors should be able to look to the press for assistance. Where the Law Lords have misunderstood parliament's intention is in their failure to read the section in the Contempt of Court Act as a composite phrase.

Disclosure, parliament decreed, may be ordered "in the interests of justice or national security." Justice is always backward-looking; it seeks to adjudicate with even-handedness and apportion blame for past occurrences. National security is about the past, present and future. Disclosure may alternatively be ordered, not in the interests of order and peace but "for the prevention of disorder or crime." The intention of parliament is not therefore to compel disclosure of sources of information in the interests of maintaining the Queen's peace, desirable as that no doubt is. The requirement of disclosure focuses specifically on future conduct – the hindering or stopping of conduct that may lead to criminal events.

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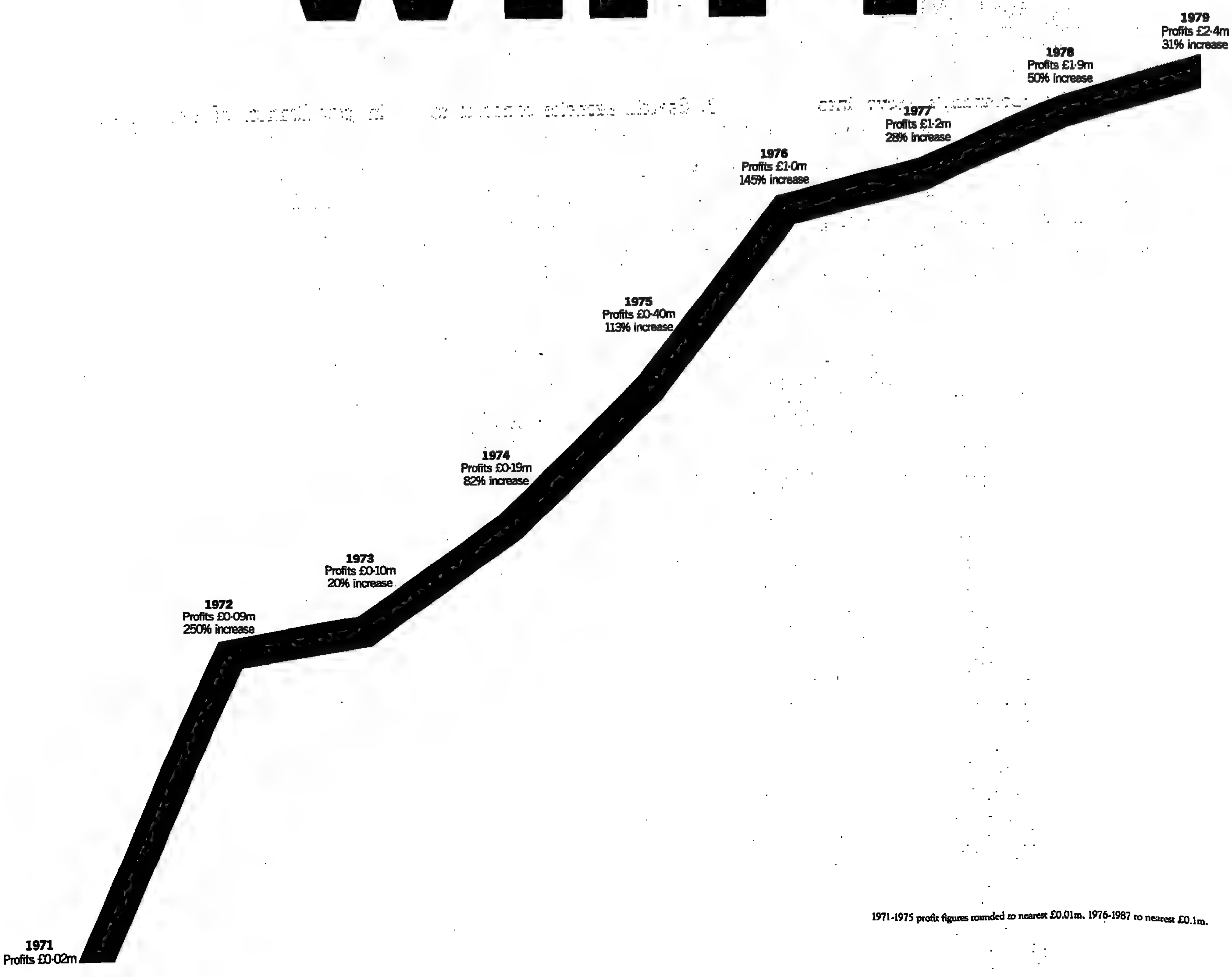


Architecture/Colin Amery

Quench that thirst for knowledge

If nothing else, the heir to the throne's pronouncements about architecture have certainly provoked a thirst for knowledge: several people have asked me how they can find out more, about modern architecture in particular. Is it the untamed beast roaring round our cities consuming all in its path that might appear from recent vivid descriptions? It seems appropriate, with Christmas around the corner and stockings to be filled, to look at some new books that might slake the thirst for information and even inspire a few visits to look at buildings.

It is hard to find good new books on modern architecture, but one recent staightforward guidebook seems to me a good primer: *Modern Architecture in Europe, A Guide to Buildings since the Industrial Revolution*, by Dennis and Elizabeth De Witt (Weidenfeld and Nicolson, £12.95) successfully provides both a guide and commentary to the major achievements of this century and their predecessors.

It has, of course, taken two Americans to compile a book like this, and it has both the virtues and vices of the American approach to Europe. The authors travelled some 55,000 miles by car plotting the places and buildings, and the book is well researched with quite helpful maps, but I found the authors' very American approach to Europe, and their habit of judging almost everything from the rational modernist standpoint, infuriating and limiting. You sense that they would have liked to classify everything academically, and where they can they do. But faced with Voysey, for example, they quite wrongly call his work neo-vernacular and rural (and I don't imagine many visitors to Harrods food halls are going to rush in because these authors call it Free Style).

I disagreed frequently with these judgments, which made the book stimulating. Do not allow the American enthusiasm for classification to put you off – this is a useful guidebook although it should really have been called "modern architecture and its roots" because it wisely includes the work of many key earlier architects. The omission of Czechoslovakia and Russia and other Eastern Bloc countries inevitably leaves the whole story of modern architectural development only half told, but perhaps that is for the second volume.

A guide of quite a different kind, but one that has also been missing for a long time is *The Palladio Guide* by Caroline Constant (Architectural Press, £10.95). I highly commend this concise and intelligent companion to any visitor to Vicenza, Venice and the Veneto. It tells you about the circumstances surrounding Palladio's major commissions and illustrates the selected examples with plans, contemporary drawings and black and white photographs. In a direct and intelligent way the author manages to air the problems Palladio was confronted with. The account of the change from perspective spatial concepts of the Renaissance to the then new ideas of scenography is clear and illuminating.

This guide does what any good guide book should: it provokes your interest by selecting the most important facts and interpreting them in a way that makes you want to look again at the villas and churches. It is not possible to underplay the importance of Palladio in the history of Western architecture, and with this little book in your hand you have the best portable introduction to the buildings themselves.

The father of western architecture: Palladio, by Leoni, 1726 from a new Palladian guide book

Books about obsessions make the best reading and *Biedermeier* by Angus Wilkie (Chatto and Windus, £35) is an extraordinarily lavish example of an illustrated obsession. Mr Wilkie's interest began as he started to collect the fine furniture of the Biedermeier period (1815-1848) for his own New York apartment. Now he runs a shop in New York selling the art of the period.

Large and illustrated in colour with photographs by John Hall, this is coffee table Biedermeier but with a brilliant combination of intelligent text and well placed illustration. I am not sure that it adds much more to our knowledge than the original book that started the revival of interest in Biedermeier, translated by Simon Jervis of the V and A in 1974 (George Himmelheber's *Biedermeier Furniture*); however, it is a seductive feast for the eyes and would make a suberb present. I enjoyed it enormously, not least for the inside look that it gives into the world of a prominent New York dealer.

I have always thought that furniture has a strong influence on architecture, initially probably at an almost subliminal level. Biedermeier had a great influence on the early post modern architects like Michael Graves. It is the stripped down classicism that appeals as well as the highly architectural character of so many of the individual pieces.

The Origins of the Gothic Revival, by Michael McCarthy (Yale University Press, £25) seems to me to be the best bargain of the new architectural books. It fills an important gap that has really existed since Horace Walpole promoted the movement so selectively. Kenneth Clark's *Gothic Revival* was published as long ago as 1928, and was at the time pioneering but incomplete. Michael McCarthy's book is learned and fascinating.

It deserves a longer review, but at the same time must be mentioned here as it is the ideal Christmas book for an architecturally-inclined friend. How right Mr McCarthy is to spend so much time researching the importance of garden buildings in the Gothic style – here so many of the seeds were planted, and until now the flowers have not been thoroughly examined. For the first time, too, the work of Sanderson Miller at Arbury and the role of Sir Roger Newdigate is examined in scholarly detail. The book is beautifully illustrated, and maintains the incredibly high standards that distinguish Yale University Press's architectural history list.

Country Manors of Portugal by Marcus Binney (Antique Collectors Club, £25) is a revelation of the houses and gardens of Portugal through seven centuries. It is much helped by the glorious photography of Nicholas Sapieha, who also writes in the book. A neglected corner of European architectural history that has been colourfully illuminated.

Space does not permit mention of all the new architectural books that seem to flood on to the Christmas market, but the following list is made up of books that are all good additions to an architectural library.

Great Engineers by Derek Walker, (Academy Editions, £29.95).

The Classical Country House in Scotland by James Macaulay (Faber and Faber, £25).

The Rajput Palaces: The development of an architectural style, 1450-1750 by G.H.R. Tillotson (Yale, £30).

The Cistercian Monasteries of Ireland by Roger Stalley (Yale, £25).

Eileen Gray: Architect/Designer by Peter Adam (Thames and Hudson, £30).

Community Architecture: How people are creating their own environment, by Nick Wates and Charles Knevitt (Penguin, £4.95).

Countrymania/Olivier

Michael Coveney

It is brave of the National Theatre to have returned to Goldoni. The opening of the Olivier auditorium in 1976 was plagued by a badly misfired version of *Il Campiello*

Now the Mike Alfreds company, which prompted a mixed reception earlier this year for its five-hour adaptation of *The Wandering Jew*, proceeds, unabashed, to offer another five hour epic, the *Goldoni Villegiatura* trilogy.

They are not, as they stand, very strong plays, none of them as good as *La villegiatura* itself, a middle-period comedy covering the same social phenomenon but with a strong leading character and an interesting psycho-sexual treatment of the cicesbeism surrounding Venetian married couples on holiday. These pieces, long considered unimportant, have been restored to the repertoire by a famous Giorgio Strehler production and subsequently presented, much condensed, at the Glasgow Citizens.

In three related plays, we see a quartet of lovers adjourning from Livorno to Montenero for the country season of banquets, balls and card-playing, the "villegiatura" ritual that Goldoni had observed with disapproval on the banks of the Brenta. Venice is transported to Livorno, for reasons of discretion.

Goldoni was as deeply moral a writer as he was scathingly satirical. He thought the Venetian summer carnival was bad for people, obsessed as they were with how others saw them *en fete*. Moral decay and financial ruin were the upshot of alfresco indulgence. These plays, slight but steely, are like empoisoned Watteau paintings.

The impoverished Leonardo's sister, Vittoria, is waiting for her dress, a Parisian item called a *mariage*. "Some poeple are going to burst with envy," spits Sian Thomas, bent on upstaging her brother's betrothed Giacinta (Sylvestra le Touzel). Giacinta, in turn, is going to teach Leonardo a lesson by travelling to Montenero in the same gig as Guglielmo (Nick Dunning), promised to Vittoria.

Money underpins all these arrangements in a flurry of dowries and contracts. There is also a satellite sponger, Ferdinando (Philip Voss), who is after Giacinta's widowed aunt's money and as many meals and free tickets as possible, and a manipulative family adviser (Russell Enoch) to the hapless Leonardo.

The final play brings us back to town and the grim truth beneath the surface pretence of Costanza's (Paola Dionisotti) summer fluttering. The company assembles in her under-furnished pigsty to finalise wedding plans attended by a callow niece (Kate Godfrey) already married to a student booby (Lucien Taylor).

These affairs are laid out in matter-of-fact fashion by Mr Alfreds, devoid of much in the way of light, shade and savage contrast. The cast range between the incisive, aghast pushiness of Sian Thomas and the wilting inaudibility of some others. The occasion lacks sparkle and conviction, its length producing a monotony of effect rather than any intensification. Mr Voss gives the other competent performance, though his material packs up on him half-way through.

Mark Rylance is good at Leonardo's outbursts of petulant jealous rage, and his first play vacillations, fuelled by misgivings, are genuinely funny. But the character's temperament is not fully worked out over the long haul. Nick Dunning hovers mildly all evening between Guglielmo's awakening obsession with Giacinta and his own calculated opportunism.

"He's all phlegm and I'm all flame," snaps Vittoria in one of the text's sharper lines. Mr Alfreds, who has prepared this version himself, also invokes a Wildean Bunburyism in the measured cadences of the rush to the country, while Philip Donaghy and Maggie Wells summarise the servants' weary confusion at the arrangements before playing a touching love scene under the Montenero moonlit cypress trees.

Sylvestra le Touzel and Nick Dunning

Those trees, also reproduced in potted miniature, are an elegant feature of an elegant but antiseptic design by Paul Dart. Revolving cream arches and doorways are decorated with drapes and trailers, or nifty white canopies for the cafe scene. What is missing here is an overall mood or atmosphere, a magical conjunction of setting, lights, music and acting, which is what you invariably have in a Strehler production. Goldoni needs this in order to be seen in his full comic richness.

The National production is all too flat and glum, in spite of the laundered extravagance of the costumes and the joyful taped chorales composed by Ilona Sekacz, some of them reminiscent of Stephen Sondheim's "villegiatura" *A Little Night Music*, shafts of nonsensical sprightly settings of musical terms: crescendo, diminuendo,allegro ma non troppo, ostinato, and so on.

But the music does not meld with the rest. Some of the actors resort to little Italianate shrugs and emissions in response, but they are moving in a leaden *adagio*. Outside of the Glasgow Citizens, who have supplied marvellous Goldoni evenings over the past 15 years,the author remains unsnared by the British theatre.

Outbreak of God/Young Vic

Michael Coveney

Seasonal mania has broken open the temple of the Young Vic in this strange platform for refugee impressionists devised by writer Kenny Murray under the satanic influence of director Ken Campbell, whom I count on one hand among the classifiable geniuses of the British theatre.

Outbreak of God in Area 9 dials 666, the Number of the Beast, Aleister Crowley, but fails, in the most diverting fashion, to make a connection. Armageddon may be 55 miles north of Tel Aviv, but global consequences are soon ditched in a bid to elucidate a fiendish scientific conspiracy in Leicester between Clive Sinclair, whose mobile bidet's a flop, and Tiny Rowlands.

A home fusion device will fill the world with God's presence. "Say that again, but say it slowly," says Tiny: God's got into a river.

Ken Campbell's theatrical style is to hold open house for nutty freewheelers. In this capacity, he has invented the creative power of Bob Hoskins and others in his road shows, re-defined the possibilities of shoestring theatre in his sci-fi epics, engineered a physical language for momentous fantasy. The premise here is that God has got into the works, as well as the river. How do we cope with this terrible enormity?

On the floor of the house, Neil Kinnock throws incompetent insult at Maggie. Ken Livingstone whines pathetically from the back benches while Tony (or is it Tiny?) Benn sucks conclusively on his pipe. The idea is to appropriate the current rash of impersonification of media and political figures to a higher theatrical purpose.

Ronald Reagan, touched by goodness, will be beamed back to an Indian reservation. Benn and Arthur Scargill, will discover fairies at the bottom of the mineshaft.

A Chernobyl-style fall-out of divine intervention will prompt all manner of cabaret turns. The Campbell roster includes Barry Norman being interfered with by Elvis Presley, and Frank Bruno confessing his amatory addiction to Harry Carpenter.

Most of these quick flash portraits are very funny. What they lack is a shaping script. And in some instances, effective punch lines. In the case of Michael Roberts's Burt Lancaster, he lacks more than that. He would be just about perfect as a gormless, witless square-chin like Charlton Heston.

Mr Roberts makes amends, though, with a delightful resume of the Gielgud/James Mason/Brando *Julius Caesar* film. This is a *recherche* antidote to Caroline Bernstein's insinuatingly toothy Esther Rantzen, a close relative of Mrs Thatcher but a distant one of the Queen, who delivers a pinched and nasal national address on the sudden crisis caused by a superabundancy of love.

The night's outstanding goon, however, is Mark Lockyer, whose Tony Benn is only marginally less funny than his irately brattish John McEnroe. In a time when impressionism has more to do with feinting than painting, it is interesting to see how Mr Lockyer differentiates between the soft and scathing reasonableness of President Reagan and Mr Benn.

His hatchet jobs are executed with affection. Which is more than you can say of his devastating Ian McKellen, who poutingly declaims Shakespeare in flat Bolton vowels while being goosed from within by Marilyn Monroe. The quality of this turn is some compensation for an increasingly threadbare sci-fi purpose elsewhere.

Young Turner at the Clore Gallery

Young Turner: Early work to 1800 inaugurates a series of winter exhibitions in the Clore Gallery charting Turner's development as an artist.

It opens on January 11 until March 20.

The Sixteen/St John's

Richard Fairman

Although they have been in existence for a full decade, the Sixteen really made their mark with performances of Handel's *Messiah* at St John's last year and their subsequent recording of it. Clearly performers and audiences alike realised they were on to a good thing, for Friday night's performance was the first of four repeats this Christmas and the little Footstool restaurant at St John's had become a Crush Bar in all but name.

The group as a whole take their title from the choir - appropriately so, as it was their singing that formed easily the most distinguished component of the performance.

The standards in small-scale, professional choral groups are very high these days. In the case of the best of them (the Monteverdi Choir comes to mind) every technical facility seems to be on hand and it must be difficult for the singers to resist showing off just what they can do.

Without any doubt The Sixteen are on this level. At no point in the choruses of this *Messiah* did their singing admit the slightest technical flaw.

Every note was clear, even in the most complex fugal passages; and what a joy is it to hear the music sung easily and naturally without the consonants being spat out *en masse*, as the large amateur choirs invariably do. One feels that real music is being made.

With this piece being something of a speciality, it was only to be expected that Harry Christophers, founder and conductor of The Sixteen, should lead a performance that was constantly illuminating in its detail. But it was a feature that has not yet extended to the orchestra: intonation was no more than average for original instruments (the violins often sounded sour despite any number of re-tunings) and ensemble was untidy.

Nor did the soloists always hold the attention. I enjoyed the strong singing of the bass, Robert Hayward, and the counter-tenor Charles Brett rose to an eloquent account of "He was despised" after sounding distinctly under-powered in his other arias; but neither they nor the soprano and tenor (Lynda Russell and Ian Partridge) gave the impression of really wanting to communicate their texts.

Two further performances follow on Tuesday and Wednesday.

Obituary/Jascha Heifetz

Max Loppert

Jascha Heifetz, who has died in Los Angeles at the age of 86, was perhaps the 20th century's supreme violinist. Even for the many generations able to acquaint themselves with his playing only through records, the name and, more important, the sound and style have continued to carry an aura of special distinction. It might be said that what Horowitz has been to the piano, Heifetz was to the violin – a virtuoso who stamped a particularly telling, long-lasting image of technical brilliance and musical authority on the performing manners and patterns of his century.

Born in Vilna in 1901, he showed talent early, and went to St Petersburg to study with the famous violinist and teacher Leopold Auer. Debut concerts in St Petersburg (1911) and Berlin (1912) led in 1917 to a first American tour and a sensational Carnegie Hall recital. Thereafter, the US was Heifetz's home. After the Second World War, when he began to limit greatly the number of his public appearances and world tours, finally withdrawing altogether, his second reputation, as a fiercely demanding violin pedagogue, was spread throughout the musical world.

Heifetz was a renowned player of chamber music (with such partners as Arthur Rubinstein, William Primrose, Emanuel Feuermann, and later Gregor Piatigorsky), but it was as a soloist of immaculate technical address and glittering vitality that he will be most widely remembered. Alike in his platform demeanour and his musical approach, he cultivated an air of aloofness and detachment that led to occasional charges of coldness.

These were understandable, but misplaced: the fast-vibrating brilliance of tone, impeccable intonation, aristocratic disdain for sentimentality and forward-surging impulse were engendered by a startlingly individual musical imagination. Several composers, Walton notable among them, wrote concertos for him. The large legacy of records does the best of Heifetz justice.

Purcell/St John's, Smith Square

Dominic Gill

John Eliot Gardiner returned with his Monteverdi Choir and English Baroque Soloists on Thursday evening to present another evening of Purcell.

This time it was a programme of lesser music. The masque for *Timon of Athens* is a late production (mid-1695): gentle, small-scale, unassuming – even our programme note writer Curtis Price confessed to finding the final duet and chorus "lacking in conviction." The piece is certainly worthy of resurrection for interest's and history's sake: but essentially, by the highest Purcellian standards, it is tame stuff.

Whatever the success it may have had in its time, which was not inconsiderable, *Dioclesian*, too, is a relatively tame Purcell creation. The listener may wait in vain as it progresses for any numbers to match the best of *Dido* or *King Arthur* or *Fairy Queen*.

The inspiration is energetic, formal and unadventurous; even the final masque, which contains most of the best known material, brazens on and on – and Gardiner's bouncy, genial direction rarely paused to examine very closely, or to savour in any depth, its passing delicate moments.

A disappointing, low-key evening. Those who warmed to it more than I, or whose curiosity is aroused, will soon be able to buy a recording on Erato of both works done by the same performers.

Artists Award winners named

The winners of this year's inaugural Artists Award, established by the Whitechapel Gallery with the support of an anonymous patron, have been announced.

They are Joanna Kirk and Mathew Hale, who will each receive £3,000.

The winners were selected by artists Michael Craig-Martin, Bruce McLean and Avis Newman from a shortlist of nine.

Saleroom/Antony Thorncroft

Breeze from the east

A breeze is blowing from the east this week through the auction houses as they prepare to batten down the hatches for their extensive Christmas break. Today Christie's disposes of Chinese works of art and tomorrow Japanese, including the Bearsted collection of netsuke. Sotheby's offers oriental manuscripts and minatures today and Chinese goodies tomorrow.

Chinese works of art have proved a tricky sector in the past year. Hundreds of second-rate grave goods have flooded into Hong Kong. The Chinese collectors are reluctant to buy items buried with the dead and a lack of western interest has produced some dismal sales. But the later, top quality, Chinese antiques have been a firm market.

At Christie's the top prices, up to £40,000 each, are expected to be paid for a blue and white jar and a similar vase, both made around 1350. The vase is unusual in being decorated with a human figure.

At Sotheby's Chinese sale an early Ming blue and white vase carries a top estimate of £250,000. It is rare and quite large, almost 14 inches high, of its type. There are many good things in this sale, including two expensive Ming blue and white plates and a very rare lacquered figure of Buddha, dating from around 1150 and the Song Dynasty.

Sotheby's has an interesting lot in its oriental manuscripts sale – an album of more than 150 portraits and scenes gathered by Henry Pitman who was in the medical service in India in the mid-19th century. The drawings and watercolours are of characters he knew and of scenes of local life, and the £18,000 top estimate looks modest.

On a grander scale are three leaves from a manuscript of the Siyar-i Nabi, commissioned by Sultan Murad III in the late 16th century. Three of the six volumes, containing 814 minatures, are in the Topkapi in Istanbul and two are in the west but the other volume was split up and these colourful minatures, with individual estimates up to £35,000, come from that.

Among the British paintings at Phillips tomorrow is a set of four views of the Northampton Grand Steeplechase of 1833 by James Pollard. The set describes the race and carries portraits of the nine horses and riders. A price of up to £100,000 is expected for the quartet.

Another set of four, of views of Tapeley Park, Instow, in north Devon, by William Tomkins, should fetch around £50,000, as should an evocative view of Paris as seen from Montmartre in 1829 by Gerald Arnold.

"Ludgate; evening," the scene down Fleet Street and towards St Paul's captured by John O'Connor in 1887 and familiar from a thousand Christmas cards, at least those sent in the City, is offered at Sotheby's Victorian picture sale on Wednesday. It carries a top estimate of £70,000.

● Very high reserve prices probably inhibited the sale of two or three plum items in Christie's Finest and Rarest wine sale but the general level of prices for many sought after items was higher than might be expected. Single bottles of Latour 1858 and 1864 fetched £2,100 and £2,000 respectively, with a bottle of Lafite 1858 making £1,200 and one of Yquem 1869, £920.

Among more modern vintages, a jeroboam (equals six bottles) of Lafite 1945 went for £1,350 and one of Petrus 1955 for £2,000. A single bottle of Mouton-Rothschild 1946 went for £2,100 – for the label.

Cases of 1961 clarets went for good and, in one or two instances, new top auction room prices, including Ducru-Beaucaillou (£850), Lynch-Bages (£720), Domaine de Chevalier (£650), Palmer, bottled by Berry Brothers (£920), Montrose (£560) and three magnums of Figeac (£520). A collection of 73 cases of vintage Pomery Champagnes from 1937 to 1969 were knocked down for £25,142.

The three most prominent items that failed to sell were a possibly unique bottle of Latour 1795, bought in at £11,000, an Imperiale (equals eight bottles) of Mouton Rothschild 1924, withdrawn at £7,200, and a jeroboam of Petrus 1961 bought in at £6,200.

Edmund Penning-Rowsell

Arts Guide

December 11-17

Music

LONDON

Royal Philharmonic Orchestra conducted by Andre Previn with Jon Kimura Parker, piano. Copland, Rachmaninov and Vaughan Williams. Royal Festival Hall (Mon). (928 3191).

English Chamber Orchestra conducted by Jeffrey Tate with Nigel Kennedy, violin. Schoenberg, Bruch and Mozart. Queen Elizabeth Hall (Mon). (928 3191).

Alfred Brendel, piano. Schubert. Royal Festival Hall (Tue).

Orchestra of St. John's Smith Square conducted by John Lubbock with Alison Hargan, soprano,and Richard Todd, horn. Strauss. Queen Elizabeth Hall (Tue).

Messiah conducted by Harry Christophers with Gillian Fisher, soprano, David James, counter-tenor, Ian Partridge, tenor and Michael George, baritone. St John's Smith Square (Tue and Wed). (222 1061).

London Philharmonic orchestra and choir conducted by Kurt Masur with Edith Wiens, soprano. Kodaly and Grieg. Royal Festival Hall (Wed).

Royal Philharmonic Orchestra and London Choral Society with choristers of Southward Cathedral conducted by Philip Ledger and Harry Bramma with Stephen Roberts, baritone. Rossini, Corelli, Rimsky-Korsakov and Honegger. Royal Festival Hall (Thur).

TOKYO

Barbara Hendricks (soprano). Brahms, Faure, Strauss. Tokyo Bunka Kaikan. (Mon).(572 4311).

Tokyo City Philharmonic Orchestra, conducted by Yoshikazu Fukumura. Concert "exploring the future in music through electronic musical instruments and orchestra". Suntory Hall (Mon). (546 2451).

Tokyo Symphony Orchestra, conductor Hiroshi Kumagai, with Hiroshi Tajika (piano). All-Beethoven programme. NHK Hall (Wed). (465 6115).

NHK Symphony Orchestra, conducted by Berislaw Klobucar. Wagner. Liszt. NHK Hall (Wed, Thur). (465 1780).

Japan Philharmonic Symphony Orchestra, conducted by Libor Pesek, with Shizuka Ishikawa (violin). Schubert, Debussy, Bruch. Tokyo Bunka Kaikan (Wed). (234 5911).

Vladimir Ashkenazy (piano), New Japan Philharmonic Orchestra. Beethoven, Rachmaninov. Suntory Hall (Thur). (403 8011).

Tokyo Philharmonic Orchestra. Verdi Requiem. Tokyo Bunka Kaikan. (Thur). (256 9696).

PARIS

Margaret Price, soprano recital, (Mon). Theatre des Champs Elysees. (47 20 36 37).

Orchestre Colonne, conducted by Philippe Entremont, Jean-Pierre Rampal, flute: Mozart, Poulenc, Brahms Salle Pleyel (Mon). (45 63 07 96).

Aldo Ciccolini, piano: Liszt's poetic and religious harmonies. Salle Gaveau (Tue). (45 63 20 30).

A Sei Voci and Ludi Musici brass ensembles: Henri IV's Royal Funeral Music and Eustache du Caurroy Requiem Saint-Germain l'Auxerrois Church (Tue). (42 77 19 90).

Nouvel Orchestre Philharmonique conducted by Zoltan Pesko with the Radio France Choir: Kodaly, Bartok. Salle Pleyel (Tue). (45 63 07 96).

Orchestre de Paris conducted by Christoph von Dohnanyi, Raphael Oleg, violin: Mussorgsky, Sibelius, Tchaikovsky. Salle Pleyel (Wed, Thur 8.30pm). (45 63 07 96).

Budapest Symphony Orchestra: Richard Strauss - Viennese Waltzes Salle Pleyel (Wed, Thur 2.30pm). (45 63 07 96).

Groupe Vocal de France: Campana, Pablo, Tosi, Ligeti Auditorium des Halles (Thur). (43 87 95 80).

Bernard Thomas Chamber Orchestra and the Franco-German Paris Choir: Vivaldi, Puccini, Cherubini *Saint-Germain-des Pres Church* (Thur). (42 77 19 90).

ITALY

Milan, Chiesa di S. Allessandro, organ and orchestra. Ton Koopman plays and conducts Handel, Mozart and Haydn. (Mon). (805 28 41).

Milan, *Teatro alla Scala. Maurizio* Pollini, piano (Mon). (80 91 26).

Rome, Auditorium in Via della Conciliazione. Mstislav Rostropovich conducting Beethoven and Tchaikovsky (Mon and Tue). (654 10 44).

Rome, Oratorio del Gonfalone (via del Gonfalone 32/A). The Gonfalone Chamber Orchestra with violinist Giuliano Carmignola playing Vivaldi and Bach (Thur). (687 59 52)

NETHERLANDS

Amsterdam, Concertgebouw. The Netherlands Philharmonic conducted by Henry Lewis, with Zara Nelsova, cello: Dvorak, Sibelius (Mon). Semyon Bychkov conducting the Concertgebouw Orchestra, with Katya and Marielle Labeque, pianos: Grieg, Mendelssohn, Strauss (Wed, Thur). Recital Hall: Schubert vocal series (Tue). The Prazak Quartet: Brahms, Beethoven (Wed). *Anner Bijlsma, cello, and Stanley* Hoogland, fortepiano: Beethoven (Thur). (71 83 45)

Utrecht, Vredenburg. Koyaanisgatsi performed by the Philip Glass Ensemble (Mon). Lev Markiz conducting the Netherlands Philharmonic chamber ensemble, with Oleg Maisenberg, piano, and Hakan Hardenberger, trumpet: Keuris, Beethoven, Haydn, Schubert (Tue). The Netherlands Philharmonic conducted by Henry Lewis, with Zara Nelsova, cello: Barber, Dvorak, Sibelius (Wed). Recital Hall: The Tears of Peter and Paul, a 17th-century chamber opera by Padbrue with libretto by Joost van den Vondel, *reconstructed by. Bob van* Asperen (Mon). Hannes Wader in the series Das Lied vom kleinen Mann (Tue). (31 45 44)

The Hague, Philipszaal. Lev Markiz conducting the Netherlands Philharmonic chamber ensemble, with Oleg Maisenberg, piano, and Hakan Hardenberger, trumpet: Keuris, *Shostakovich, Haydn, Schubert* (Mon). (60 98 10).

Rotterdam, Doelen, Recital Hall: The Netherlands Chamber Choir under Gustav Leonhardt, with Bob van Asperen, harpsichord: Sweelinck, Huygens, Verrijt, Hollander, Monteverdi (Thur). (413 24 90).

Haarlem, Concertgebouw. Lev Markiz conducting the Netherlands Philharmonic chamber ensemble, with Oleg Maisenberg, piano, and Hakan Hardenberger, trumpet: Keuris, Beethoven, Haydn, Schubert (Thur). (32 09 94).

Nijmegen, Vereniging. Anner Bijlsma, cello, and Stanley Hooglands, fortepiano: Beethoven (Tue). The Academy of St Martin in the Fields under concertmaster Iona Brown: Bach, Corelli, Mozart, Elgar, Janacek (Thur). (22 11 00).

Groningen, Lutherse Kerk. The King's Consort with James Bowman, counter-tenor: Telemann, Bach, Vivaldi, Pergolesi. (Thur). (030 34 09 21). Oosterpoort. The Schoenberg Ensemble: Prokofiev, Janacek, Schoenberg (Thur). (13 10 44).

Zwolle, Odeon. The King's Consort with James Bowman, counter-tenor: Telemann, Bach, Vivaldi, Pergolesi (Wed). (21 85 00).

NEW YORK

Juillard Concerts. Marsha Long organ recital: renaissance, baroque and Christmas music (Wed, 12.30); Zoe Hwang soprano: Bach, Mozart, Schumann, Ravel (Thur 12.30). Free, IBM Gallery at 56th and Madison.

I Cantori di New York, Bart Folse conducting. James D Wagoner, Finzi, Buxtehude (Mon). **American Brass Quinteto** Coperario, Holborne, Maurer, Ingolf Dahl (Wed). **Lydian String Quartet**. Beethoven, Haydn, Steve Mackey (Thur). Merkin Hall (Goodman House) at 67th w. of Broadway (362 8719).

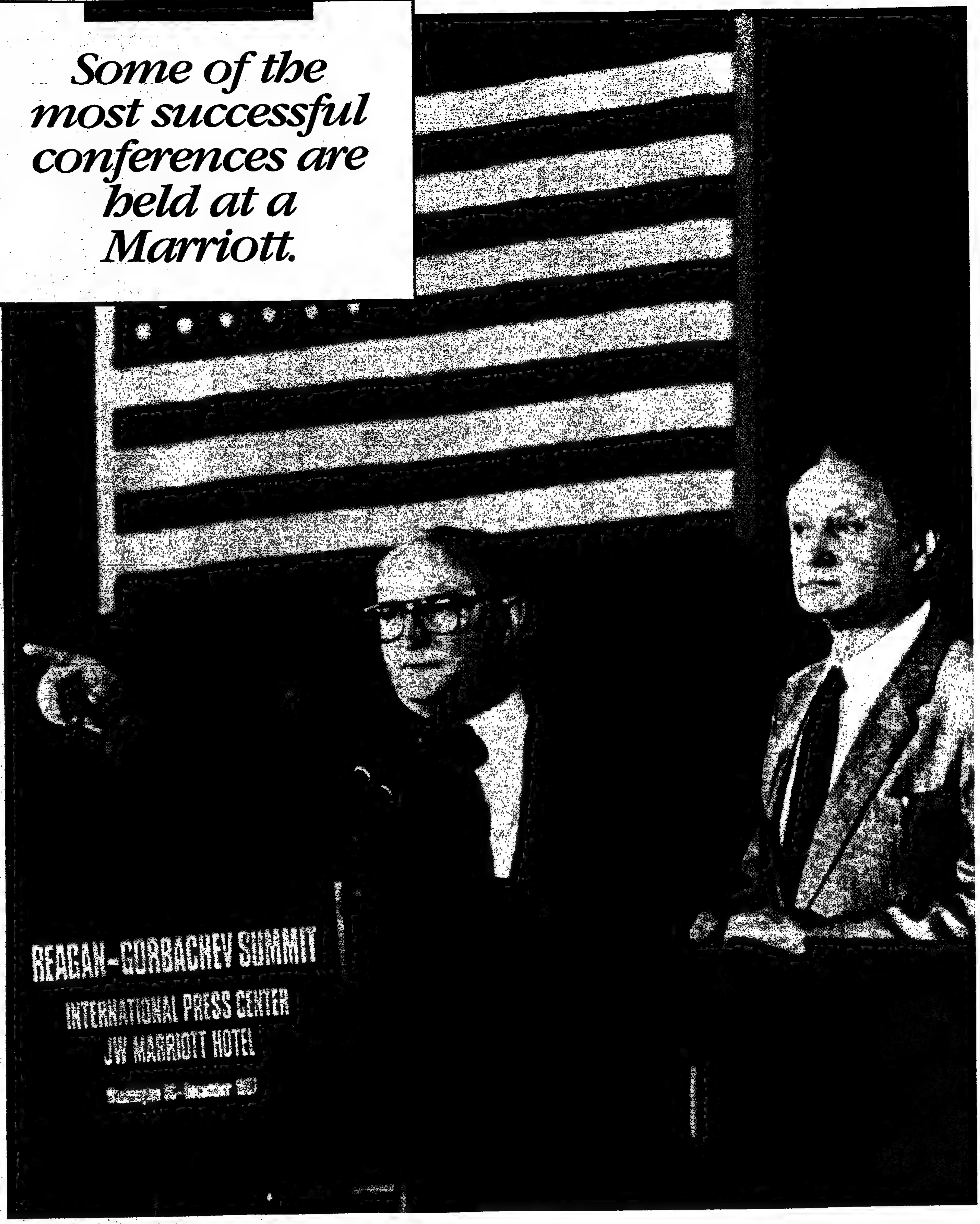
Chamber Music at the Y. Jaime Laredo, artistic director. Bach, Handel, Bach (Tue). **Ilan Rechtman** piano recital. Bach, Beethoven, Rechtman, Liszt (Thur). Kaufmann Hall at 1395 Lexington Av (831 8603).

Musica Sacra, Richard Westenburg, director, Nancy Argenta, soprano, Neil Rosenshein, Michael Chance, counter-tenor. Handel (Mon). Lincoln Center (Avery Fisher Hall) (874 2424).

New York Philharmonic, Leonard Slatkin conducting, Barbara Nissman, piano: Fine, Ginastera, Rachmaninoff (Tue). Lincoln Center (Avery Fisher Hall) (874 2424).

WASHINGTON

National Symphony, Robert Shafer conducting with the Oratorio Society of Washington. Handel (Thur). Kennedy Center (Concert Hall) (254 3776).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FINANCIAL TIMES

BRACKEN HOUSE, CANNON STREET, LONDON EC4 P4BY
Telegrams: Finantimo, London PS4. Telex: 8954871
Telephone: 01-248 8000

Monday December 14, 1987

Risks in the dollar's fall

THE long-awaited turnround in the US balance of payments seems to recede steadily into the distance. With almost three years' dollar depreciation resulting in a record trade deficit of $17.6bn for October alone, could the outcome even be accelerating depreciation and domestic inflation?

One snow-flake does not make a winter. But by now there have been many flakes. The recorded trade deficit for the first 10 months of 1987 was at the unprecedentedly high level of $146bn, the corresponding figures for 1986 and 1985 having been $138bn and $113bn, respectively.

It is not that adjustment in the external accounts has been lacking. Exports of goods and services in the third quarter of 1987 were 14.1 per cent above the corresponding figure for 1986, while imports increased by only 5 per cent. In real terms the deficit in the third quarter of 1987 had shrunk by 17 per cent from the corresponding quarter of the previous year. Nevertheless, the effort was offset by a deterioration in the terms of trade of nearly 7 per cent.

What is encouraging is that adjustment is taking place. What is disturbing is that that the patience of financial markets wears out more quickly than required by the slow pace of adjustment.

Wealth effect

The prime danger is not that the dollar overshoots its long run equilibrium level, which has probably already happened. It is rather that the decline will become cumulative. The depressing trade figures for October follow some eight months of dollar stability, during which many hoped the J-curve effect of a depreciation that started in March 1985 would have begun to work itself through. The J-curve effect of the depreciation since October is still to come. It would not be surprising, therefore, if nominal deficits were to increase again over the next few months, so triggering further dollar declines.

This danger would become greater if the improvement in the net trade balance in real terms were to be combined with a still-strong domestic economy, resulting in accelerating inflation. The hope since the stock market crash of 19 October had been that increases in the low rate of US savings would result from the so-called "wealth effect". The reduction in domestic expenditures would then prevent inflationary excess demand, freeing resources to go into the balance of payments. This hope may turn out to be misplaced. Indeed, the effect of an expectation of continuing depreciation could be to increase expenditures now, by bringing them forward.

Even without that effect, excess demand for products of industries producing traded goods and services could be reached quite quickly, as the trade balance improves. Prices of these goods may then rise rapidly. With generally high levels of activity, inflation could then be transmitted to the rest of the economy; the nominal depreciation would not lead to an equivalent real depreciation; external adjustment would be thwarted; and the currency depreciation could get out of control.

This would not, of course, go on forever. When domestic inflation in the US becomes even more politically unacceptable than the fear of recession, the monetary brakes would go on. But by then the brakes would have to be put on hard. Stagflation would return, with high interest rates and slow growth not merely undermining the creditworthiness of developing countries once more, but also giving another severe jolt to the stock markets.

Natural consequences

There can be no doubt that the US authorities, with their overwhelming orientation to the quarter-by-quarter real performance of the economy, are taking a major risk, though one they feel is worth running. They believe that if they resist raising interest rates to hold up the dollar, their principal partners will feel forced, by their own desire to minimise imported recession, to do the job for them. Meanwhile, the domestic dangers are expected to be postponed until after the next elections.

At some point the US will probably have to tighten monetary policy again, but that point will be reached too late if the US knows that the rest of the world will always intervene first. It would be better, therefore, for policy-makers elsewhere to make no comment upon the pain caused by the decline of the dollar. The very urgency of the calls for US co-operation convinces the US authorities that the policy changes they want in the rest of the world will occur without any action on their part. But the international economy cannot be run succesfully if everybody else is more worried about the dollar than is the US itself. If the US wishes to play with fire, the rest of the world must minimise the danger to itself while allowing the US to face the natural consequences.

Journalists and the law

THE CASE of Mr Jeremy Warner, the British journalist faced with the threat of imprisonment or a fine for contempt of court, is a matter of serious public concern. The right of journalists to protect the anonymity of their sources is more than just a pious claim by a group of vested interests. Both parliament and the courts have recognised it as an important part of the democratic process, enabling matters of public interest to be disclosed which would otherwise be kept silent.

However the issues in this particular case are by no means clear cut. And it is certainly not, as some will no doubt claim, an example of an unhealthy anti-democratic tendency on the part of the judiciary.

Mr Warner wrote two articles, one in The Times and one in The Independent, in which he revealed the outcome of pending government decisions on take-over bids. He was not acting as a whistle blower - disclosing that public servants were engaged in the criminal activity of insider dealing, as indeed appears to have been the case. It would be hard to argue that there was any great matter of public interest in his stories: they were just good old fashioned scoops.

However insider dealing is something which has become a matter of great public concern and interest. Frustrated by the very real difficulty of prosecuting people engaged in what has sometimes been called a victimless crime, parliament last year approved sweeping new legislation. Inspectors can be appointed with powers to require that anyone whom they believe has relevant information must "give them all assistance in connection with the investigation which he is reasonably able to give; and it shall be the duty of that person to comply with that requirement." This is what has landed Mr Warner in hot water.

The unsuccessful defence was based on section 10 of the Contempt of Court Act, 1981, which states that a journalist is not obliged to disclose his sources unless the court is persuaded that disclosure is "necessary in the interests of justice or national security or for the prevention of disorder or crime." To suggest otherwise would be absurd: journalists, no less than other citizens, are obliged to support the course of justice. Last week, the Law Lords accepted that the evidence being sought by the inspectors was indeed needed for the purpose of their inquiry – the aim of which was the prevention of crime.

However, there are two arguments against the idea that Mr Warner is in clear contempt of court and should be punished accordingly. The first lies in the concern that a mere assertion that certain information was necessary for the pursuit of crime could override the protection afforded to journalists and their sources by the 1981 Act. As Justinian argues on Page 15, the word "necessary" must be interpreted very strictly. The inspectors in an insider dealing case have extraordinary powers which they could be tempted to employ too readily. Several of the judges involved in this case have expressed their uncertainty as to whether Mr Warner's evidence really is needed to prevent crime, although all except Mr Justice Hoffmann in the High Court eventually came down on the inspectors' side.

Broad obligation

Moreover, this case presents Mr Warner with an extremely difficult conflict of interest and one which was never envisaged when the 1986 Financial Services Act was passed. Journalists – unlike, say, company directors or stockbrokers – do have to consider a broad obligation to their sources of information. Everyone accepts that Mr Warner has done no more than his trade as a financial journalist in the ordinary way by talking to whatever sources of information he could find. In the words of Mr Justice Hoffmann, the demands of the law "should so far as possible avoid confrontation with morally defensible attitudes held by a section of the public who ... play their part in serving an important democratic institution." A law which requires otherwise is not well based.

Andrew Gowers, recently in Baghdad, on preparations for a new onslaught by Iran

Resolve in the face of a wearisome war

LIKE A boxer punch-drunk after countless gruelling rounds, this month Iraq is bracing itself for another big Iranian land offensive in the seven-year-old Gulf war.

For several weeks, all the familiar signs of mass mobilisation in Iran - the calls to the faithful, the training exercises, the clearing of hospitals for the wounded - have been heard on the air waves and seen on satellite photographs.

Iraqi officials and Western analysts in Baghdad reckon that around a quarter of a million Iranian troops are gathering close to the southern warfront in readiness for an onslaught, probably aimed, as in previous years, at the battered southern Iraqi port of Basra. The Iraqis are mustering their usual array of heavy armour and claim to be mobilising an equivalent number of soldiers. Heavy loss of life is the one predictable outcome in a war which has already claimed more than a million casualties on both sides.

One might expect the impending fighting to be causing a severe attack of nerves in Iraq, especially since all hopes that the United Nations might be able to broker an end to the war now seem to have been quashed. The country has, after all, been fending off increasingly successful waves of Iranian assaults for more than five years. Early this year, it came perilously close to losing the battle for Basra outright, with incalculable consequences for its stability and morale.

Yet in Baghdad these days there is a curious, almost unreal, sense of bravado. The newspapers are full of propaganda predicting that Iran is about to suffer another crushing blow. Asked by British journalists earlier this month about the planned offensive, General Abdul Jaber Mohsen, Baghdad's chief military spokesman, described it as "the last kick of a dying mule". "We tell you confidently that Iran cannot do anything against Iraq," added Mr Latif Nasif Jassem, the country's Information Minister and a close confidant of President Saddam Hussein.

To some extent, the Iraqis are clearly whistling to keep their spirits up. But there are genuine reasons why they should be feeling more confident than they did just a year ago. In short, they have managed to convince themselves that although they remain on the defensive and they recognise that they are operating at a huge strategic disadvantage, the worst of the war is behind them.

1986 was a truly dreadful year for Iraq on every front. On the ground, Iran scored its most important military success by capturing the strategic Fao peninsula and thus shutting off Iraq's sole outlet to the Gulf. Politically, the Iran-Contra affair came as a severe shock to Baghdad, which had been taking comfort from the improvement in its relations with the US in the first half of the 1980s.

Economically, there was a feeling that things were getting seriously out of control. The price of oil - source of more than 95 per cent of the country's foreign exchange earnings - fell precipitously and the problem was exacerbated by the drop in the value of the dollar since the bulk of Iraq's imports are denominated in other currencies. As a result, Iraq was forced to step up military purchases at a time when it could least afford to.

The country's foreign debt spiralled - climbing perhaps as high as $60bn - and its creditors, often kept in the dark as to when they could expect to be paid, became restive. Civilian and development expenditure - one of the instruments the Baghdad regime has used to keep its potentially fractious subjects in line - suffered accordingly.

Iran's waves of attacks around Basra, Iraq's second city, in late 1986 and early 1987 were almost the last straw. In January this year, Iranian forces were just 10 miles from the outskirts of the city. Some Western observers suggest that had Iran launched a further assault to the north or the south, Iraqi defences would have collapsed.

Since then, however, several factors have worked in Iraq's favour:

- On the battlefront, Saddam Hussein - who as president retains absolute civilian control over the military - has instituted a thorough shake-up of the armed forces. After Iran's so-called Kerbala 4 and Kerbala 5 offensives, the army chief of staff was sacked and a number of generals were shifted. Western military men in Baghdad believe that previously cumbersome lines of command in the army have been streamlined, Iraq's ground forces have been regrouped and its static defences bolstered. All in all, Baghdad is reckoned to be in better shape to resist the next Iranian onslaught than it was last winter.
- Diplomatically, the Iraqi Government has been working overtime to enlist more active support from other Arab states and from the wider international community. UN Security Council Resolution 598 - passed unanimously last July - was a milestone in this regard. So was the more or less solid Arab front against Iran constructed at last month's Amman summit.

In addition, Baghdad - though an avowed apostle of non-alignment and a significant client for Soviet weapons sales - has not bothered to disguise its satisfaction at the Western naval build-up in the Gulf and its displeasure at Soviet prevarication over the UN effort to end the war. Since the apparently mistaken Iraqi attack on the US frigate Stark last May, in which 37 American sailors were killed, Iraq's long-standing aim of "internationalising" the conflict has largely come to fruition.

After the follies of Irangate, the West has demonstrably come to realise the pressing need at least to prevent an Iraqi defeat, which many other Arab rulers fear might bring Ayatollah Khomeini's revolutionary message disturbingly close to home.

- The economic situation, too, has improved considerably over the last 12 months. The oil price has (so far) stabilised, and production and exports have risen dramatically. In 1986, Iraq was pumping out an average of 1.7m barrels a day (b/d), and at times much less. But now, thanks to the opening of a second pipeline through Turkey, production is in excess of 2.8m b/d - more than double Iraq's Opec quota - and it is set to rise to exceed pre-war levels over the next two years or so with the completion of a further Turkish pipeline and a second one through Saudi Arabia.

Almost as significantly, President Hussein - or Saddam as he is universally known - has this year taken a grip on the domestic economy, which suffers from raw material shortages, poor management and labour market rigidities.

Since the spring, he has put a new generation of well-qualified technocrats - many of whom are incidentally close political associates - in charge of the key economic and financial portfolios. He has abolished trade unions in the public sector and scrapped an entire tier of the bureaucracy running state industrial and trading enterprises; he is trying to mobilise the substantial amounts of private capital held by wealthy Iraqis for investment in agricultural and service industries, and even partly to privatise state companies such as Iraqi Airways. Price controls on staple goods have been lifted. As a result, Iraq's previously-high inflation rate has spiralled, but there already appears to have been a dramatic improvement in supplies of such items as fruit and vegetables in the shops - shortages had been a major source of grumbling previously.

"From now on," Saddam said in June, "the state should not embark on uneconomic activity. All officials must pay as much attention to economic affairs as to political ideology."

Although the state is being left in control of such commanding heights as foreign trade, banking and the oil business, this is undoubtedly a sea change for what has been one of the most rigidly centralised economies in the Middle East since the 1968 revolution by Saddam's Arab Baath Socialist Party. It amounts to an Iraqi version of perestroika (restructuring) - though without Mr Gorbachev's glasnost (openness) - and reflects the pragmatism which the war has forced the country's leaders to deploy in all fields.

At least some of these developments, though all forced by the Gulf war, may have a significance which outlasts the conflict - a point which has not been lost on Western governments aware of the post-war commercial potential of a country which commands the second largest oil reserves in the world.

Nevertheless, it would be foolish to conclude from recent events that Iraq is yet out of trouble. Their effect has been to buy Baghdad a breathing space as it prepares for the next Iranian onslaught. Yet even if Saddam's forces succeed in containing the attack, the long-term problems facing him remain horrendous.

In the first place, Baghdad is acutely aware that Iran remains well-placed to continue prosecuting a war of attrition, for years if necessary. Iraq's population is only a third of Iran's; its major population and economic centres (including the oilfields) are close to the Iranian frontier; and its financial situation remains fragile, to say the least. Iraq is essentially fighting the war with one hand tied behind its back, forced in the words of Gen. Mohsen to "economise on human resources". It simply cannot afford the heavy losses which the Iranians appear prepared to pour into the fighting. To underline Iraq's demographic inferiority complex, Baghdad is plastered with anti-contraception posters exhorting mothers to breed for their country.

Hence the importance of morale. It is impossible to gauge the true state of Iraq's spirits this winter. But it would be scarcely surprising if after seven grinding years, war-weariness were setting in. Few Iraqi families are not directly touched by death. Travellers outside Baghdad report that provincial towns and villages are draped with black flags - the one officially-permitted sign of mourning. Even in the capital itself, which has tried to maintain a studied air of normality since the conflict began, it is commonplace to see the wounded on crutches.

Behind the swaggering official statements, there are some disturbing indications about military morale. Desertion from the armed forces, for example, is evidently on the increase; hundreds of deserters, possibly more, are reported to have taken refuge in Iraq's southern marshlands. This is despite the fact that the penalties for dereliction of duty are ruthlessly harsh. There have been public executions of captured deserters in recent months, and in some cases deserters have been shot in front of their families who have then been forced to pay for the ammunition.

There is also cause for concern about the internal stability of a country which, as much as any other Middle Eastern state, is a patchwork quilt of races and religious factions. Over the last year, Baghdad and other centres have witnessed a mysterious series of bombings and shooting incidents.

In the mountainous north, the regime is faced with a troublesome insurgency by the Kurds, who make up at least one fifth of Iraq's total population. Diplomats report that since last year, the two main Kurdish factions - the Patriotic Union of Kurdistan and the Kurdish Democratic Party - have set aside their differences and, with active Iranian assistance, are making significant inroads into Iraqi control of the region. Government forces have been behaving, in the words of one observer "like an occupying army", razing villages to the ground and forcibly transporting thousands of people to other parts of the country.

Apart from the fact that this constitutes a worrying distraction for an army already stretched in confronting Iran in the south, the revolt also has an important strategic dimension in that it is taking place not far from Iraq's main oilfields and from the pipelines carrying its exports through Turkey. As a recent staff report prepared for the US Senate foreign relations committee put it, "the situation in Kurdistan could prove the Achilles heel of Iraq's defence."

All this is not to say that Saddam is losing his grip. Far from it: the predominantly Sunni Moslem ruling clique's control of Government is perhaps tighter than ever, backed by a notoriously ruthless security apparatus; the personality cult which the President cultivates remains all-pervasive; his country's majority of Shi'ites has been largely quiescent, failing to respond to the siren call of their co-religionists in Iran.

Indeed, it is arguable that the war has for the time being created a sense of national identity that did not exist before. The question which continues to worry Western governments is how long Iraqi resolve can be expected to hold in the face of a war which, if Tehran has its way, could still drag on for years.

President Saddam Hussein: his economic and military reforms mean that there are genuine reasons why the Iraqi people should be feeling more confident about the war with Iran than they did just a year ago.

Men and Matters

MEXICO CITY, DECEMBER 13

El Candidato's bandwagon

Little Hell Estuary, in Mazatlan on Mexico's Pacific north-west coast, is a land-fill-cum-slum where plyboard and corrugated iron shacks squat in the mud. It is the sort of place brought to the attention of Mexicans once every six years. This is when the bandwagon of The Candidate – El Candidato, the presidential heir-annointed of the eternally ruling Institutional Revolutionary Party (PRI) – hits town. In the course of a gruelling, eight month election campaign which culminates next July, this completes the traditional, six yearly changing of the guard in Mexico's leadership.

In a PRI-pre-selected household in Little Hell, Candidates Carlos Salinas de Gortari, the 39 year old former Planning Minister and Havard trained technocrat picked by President Miguel de la Madrid as his successor, was given an earful by a leathery matron on neighbourhood conditions, in pungent but lamentably unprintable terms. The Candidate, after getting not only his boots but his tropical cream trousers muddy, swept his huge entourage down to the wharves to argue the price of fish, lecturing a local co-op on shrimps farming, on technique, productivity, and international competition.

This was just two hours out of two 15-hour days in the first of at least two swings through one of Mexico's 31 states – Sinaloa – in a campaign designed to reach virtually every unit of population in the country. This effort and expense puzzles outsiders given that election results have always been a forgone conclusion in Mexico.

The regime has won every presidential, senatorial, and gubernartorial contest and almost all municipal elections since the 1910-17 Revolution. Any shortage of votes have been remedied by its renowned "alchemists", experts at turning electoral dross into gold.

The object of The Campaign is to introduce The Candidate to a big and complex country and its people to Him, giving them a mental foothold on the bottom of the pyramid of which He is the apex, in a lineage dating from Aztec emperors, through Spanish colonial viceroys, to the Caudillos of Independence and the Revolution.

The result is an odd mix: part medieval Royal progress, part perpetual and giant constituency surgery. A corporatist pageant is laid on across the country by local party and union branches wishing to show off strength through the ability to regiment. Only through these structures may petitioners approach the seat of power (more drains please, Senor Candidato).

Cops and robbers

Like many another country, however, among the problems most frequently brought to the attention of The Candidate are inflation and security (known north of here as law 'n order). The two combine quirkily in a phenomenon which is much exercising the yellower pages of the local press: the recent upsurge of bank and highway robberies.

"Bancazo" scream the banner headlines of the afternoon press every other day, furnishing bloodcurdling descriptions in the best Bonny and Clyde tradtion. The twist in Mexico is that the heists are frequently done by the police. Champion bank robber is Alfredo Rios Galeana, former(convicted) chief of the local equivalent to the Flying Squad, who, armed with grenades and automatic weapons, and trailing a tall blond, hit Banca Serfin in central Mexico City last Monday. Thought to be about his 30th Bancazo.

The Interior Ministry notes defensively that last year's 289 bank robberies was double the figure for 1982, when the economic crisis began here. This has to be compared with 3,000-plus in Spain and over 1,500 in France .There are no statistics, comparative or otherwise, for highway robbery, in which a leading player was Detective Chief Salomon Uriostegui(also convicted) who plied a multimillion dollar trade holding up trucks. The chief of Mexico City's detective force reckons 60 per cent of his men have criminal records.

One solution, attempted here in Sinaloa, where the sanguinary bandit "Blond Eyebrow" operated and a powerful narcotics effectively mafia took over the police, is to disband the entire force, jail dozens of its members, set up a police academy and triple the wages of its graduates. It is working, but not least because new regional army chiefs have confronted the formidable fire power of the drugs barons. Morelos, south of Mexico City, scrapped its state police force and started from scratch two years ago.

Unbroken

Last Thursday, thieves with grenades made off with $125,000 from a Mexico City stockbrokerage, 25 times more than Rios Galeana's haul from Serfin. Though the former police chief's takings were so paltry because the money delivery van got stuck in Mexico City's permanent traffic gridlock, Thursday's robbery underlined that, despite the local stock market crash, brokers are not in poverty.

The October crash wiped 75 per cent off share values on the Mexico City bourse, till then top performer in the world this year, having risen 750 per cent at its peak. Yet the two leading stock brokerage houses, Operadora and Inverlat, declared earnings of $6.5m each in October, bringing their year's profit to $72m and $35m respectively.

Both houses are owned by the Legorreta family, the main shareholders in Banamex, the leading bank, until the 1982 expropriation of the banking system. One of the main reasons for brokerage buoyancy is that, from February, a third of equity in the main banks was privatised, to pre-selected (and critics say PRI-selected) clients, at vast discounts. Shares in Banamex, for instance, rose 3,170 per cent, and the bank suddenly acquired a $3bn market valuation. Bank shares were included in the stock market index from July, and propelled it into the stratosphere. When the bubble burst banks and brokers alike lost between 90 and 95 per cent of their paper value but, so far, this has not shown up in earnings.

The other Fidel

So might Fidel Velasquez, overlord for five decades of the CTM trade union federation, a key pillar of the regime. "Don Fidel" as he is known, has threatened a general strike next Friday unless his members get across the board wage increases of 46 per cent to make up for some of the 50 plus per cent purchasing power lost since 1982.

Many commentators suspect this is a Government sponsored ruse to induce business to keep down prices, currently increasing at 150 per cent a year. Some note that Don Fidel, 87, has been around long enough to be the original model for the boy who cried wolf. The idea of a general strike the last weekend before Christmas, when workers get a month's bonus and Santas line the boulevards, is more than a little far fetched.

Mr Velasquez, whose cracked granite features appear every week on newscasts, a sphynx ringed by a forest of microphones, a protruding cigar his one concession to the other Fidel, is known for his oracular pronouncements . Last Thursday his performance was so majesterial that Mexico's two leading newspapers interpreted him to mean: "Yes, we will negotiate," and "Yes, our demands are not negotiable." If Don Fidel is on form, later refinements on this will probably show that both papers were right.

Observer

THE UK GILTS MARKET

Clouds gather again after brief burst of light

By Clive Wolman

THE ONE sector of the UK securities industry to see an upturn in business after the stock market crash on October 19 was that of the gilt-edged market-makers.

They badly needed some relief. In the first 51 weeks after the Big Bang reforms in October last year, all but four of the original 27 market-makers suffered losses as a result of intense competition, according to unofficial figures collected by the Bank of England.

Immediately after Black Monday, the volume of business soared, just as turnover in the equity market dwindled. The average value of daily turnover transacted between the market-makers and outside investors (customers) rose from £1,746m in September to £2,388m in October and £3,114m in November. In addition to the upturn in business volumes, most firms profited by holding bull positions as gilt prices rose.

But the upturn was short lived. In the past two weeks, the picture has darkened again, with a sharp fall in business. And the outlook is highly uncertain for a business which has been transformed by the City Revolution from a small and highly profitable cartel into a large and fiercely competitive marketplace.

In the pre-Big Bang era, the amount of capital devoted to gilt-edged market-making was estimated at only £75m to £80m. Nearly all of that came from just two jobbing firms, Wedd Durlacher and Akroyd and Smithers.

After the change, 27 firms - mainly UK and international banks - opened for business and pushed the amount of capital chasing gilt-edged investors up to more than £600m.

The only charge made by the market-makers to investors is the spread between buying and selling prices

The value of that business has declined dramatically. Since the abolition of the commission cartel, about 90 per cent of customer business by value has been on a non-commission basis. Thus the only "charge" imposed by the market-makers for most of their business with investors is the spread between buying and selling prices. Even that has halved.

Cuts in dealing costs have led to an upsurge in trading volume in the equity market since Big Bang. But in gilts, the increase in customer turnover was, until late October, more modest, at about 50 per cent.

The consequence has been a dramatic fall in revenue. The £100m of commission income earned by gilt-edged stockbrokers in the 12 months before Big Bang fell to about £40m in the 12 months after. The revenue from dealing spreads fell by 25 per cent. Mr Michael Hughes of Barclays de Zoete Wedd (BZW), the firm which incorporates Wedd Durlacher, estimates that the average gross return on capital before expenses in the first year after Big Bang was only 10 to 12 per cent.

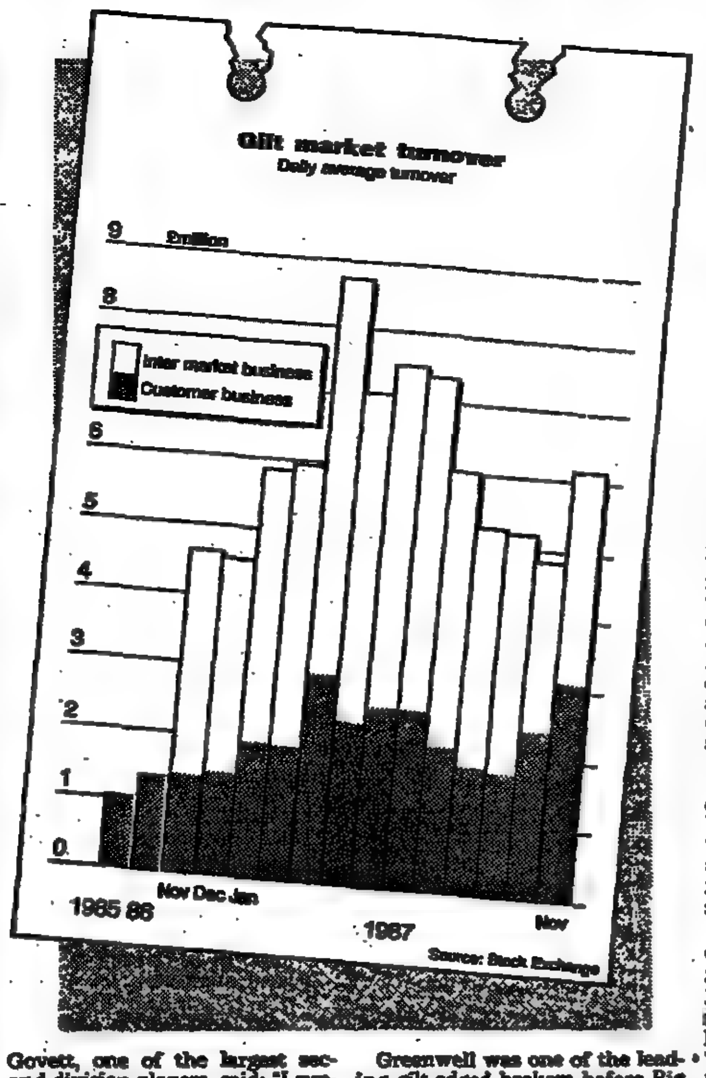
With expenses on highly-paid staff, offices and equipment amounting to about £130m, the combined losses of the 27 market-makers in the first 51 weeks to October 19 was nearly £60m, according to Bank of England indications. This figure excludes the cost of capital and tax.

Pinpointing where these losses have fallen is difficult because most firms, when questioned, have painted a rosy picture of their own performance. But about £25m of these losses were accounted for by just four firms. These are believed to include the US giant Merrill Lynch, Alexanders Laing and Cruickshank (the securities firm recently sold by Mercantile House Holdings to the French bank, Credit Lyonnais), and Lloyds Bank.

Another 19 firms made small losses, after expenses, totalling nearly £40m. This category includes three of the top four leading firms that have won a 35 per cent share of the market between them. They are Warburg Securities, the firm which bought Akroyd and Smithers and is thought to have suffered large losses after the June election, BZW, and Phillips and Drew. However, BZW has indicated that its trading and position profits in the first few weeks after the equity market crash ensured that its gilt-edged operations were in profit in the period to mid-November.

A clear pattern emerges from the activities of many of the firms that suffered smaller losses during the first year. Most firms lost money in the first few weeks after Big Bang, and then for the next six months maintained a very low exposure to the swings in the market.

But most firms were caught with bull positions after the election, when the eagerly anticipated Japanese "wall of money" never arrived and the market fell. Mr Ian Abrams, of Hoare Govett, one of the largest second-division players, said: "I suppose we showed our naivety in market-making by not cutting our losses immediately."



The loss-makers include the three firms which have so far withdrawn from market making, Lloyds Bank, Royal Bank of Canada and Hill Samuel Wood Mackenzie.

The only one of the four first division players to have made a profit in the first 51 weeks was Greenwell Montagu, the Midland Bank subsidiary, whose success contrasts sharply with the upheavals and losses of its equity market operations.

Greenwell was one of the leading gilt-edged brokers before Big Bang and was the first to offer an on-screen information and analysis service to its clients. But it had to build up its market-making arm from scratch, mainly by training 40 of its own staff. Unlike most firms, it maintains a sharp distinction between the activities of the "front book" traders, who deal directly with customers and lay off their exposures as quickly as possible, and the back book, in which strategic positions are taken in anticipation of market movements.

Profits on the front book, arising from the spread between the buying and selling price, amount to between 0.005 and 0.01 per cent of the value of the transactions. But even such wafer-thin margins are sufficient to cover about 75 per cent of expenses. The firm has also built up a large share of the index-linked market. The other 25 per cent is covered by profits made by a six-person arbitrage team which seek out pricing anomalies between different stocks.

The remaining profit comes from Greenwell's back book which is managed by Mr Stephen Posford. He was one of the few to judge the post-election market correctly. "You have to move quickly," he says. "I have switched the book from a strong bull to a bear position in five minutes. But sometimes we can go a whole week with taking a single punt on the market."

The other three profitable firms during the first 51 weeks were, probably, the US investment bank, Goldman Sachs, which has built up a 5 to 6 per cent market share; Morgan Guaranty, the giant New York commercial bank; and Cater Allen, a discount house. Morgan Guaranty and Cater Allen have been content to win small market shares and avoid unprofitable business.

The stance of Cater Allen and other small players has led their larger competitors to complain to the Bank of England that they are not fulfilling their duties as market-makers by making consistent two-way prices.

Both firms have kept tight control over their expenses. Morgan Guaranty has employed younger people on relatively low salaries. According to Mr Bob McKeracher, managing director: "Some people who have paid big money for dealers have been disappointed and then the dealers have started doing strange things and taking big risks to justify their wage packet."

In fact, salary levels levelled off for salesmen and traders shortly after Big Bang when the rush to recruit died down. But they have not yet started to fall, although some insurance companies and investment management houses say that they have recently been receiving calls from gilts salesmen anxious about their jobs and hoping to move into managing bond portfolios.

The success of firms like Cater Allen and Morgan Guaranty has raised three fundamental questions about the future of the gilt-edged market. One is whether the special privileges offered by the Bank of England to market-makers - including direct access to the Bank of England when it issues stock - should be maintained.

The second question is whether the advantages of scale really are effective in the gilt edged market. The argument is that, because a large player receives much more information about the state of the market from all the transactions and approaches that he receives, he can take positions more effectively and quote finer prices.

But as Cater Allen's Mr John Illsley says: "There is a point beyond which the information from dealing is no longer valuable, as you can't use it." A fast-moving trading organisation can easily become overloaded with market information which it is unable to integrate or to act on.

A further point is that many firms, such as Morgan Guaranty, Salomon Brothers, Shearson Lehman and possibly the Japanese securities houses now applying for market-maker status, feel that they need a presence in the UK bond market to back up a 24-hour global trading operation and to serve their large corporate clients around the world. Winning dominance in the market or even making large profits is not necessary to justify their presence.

The third and related question is whether the larger firms can cash in on their size and resources to engender customer loyalty. "Brand loyalty is minimal in this market," says Mr Illsley. "What matters is price." His competitors claim that they can get an edge by differentiating their service in such areas as consistent dealing and quality research.

The transformation has been from a small and highly profitable cartel into a large and fiercely competitive marketplace

They need to be right. For if the trading of gilt-edged stock remains primarily a commodity service, in which price is the only concern, then it could be difficult for more than about eight firms to operate profitably in the longer term, even if others retain a token presence for reasons of prestige or to service an overseas corporate clientele.

Either way, and even if the upsurge in trading volumes over the last two months is resumed, the trickle of drop-outs looks certain to continue.

Lombard

Inheritance and the under-class

By Samuel Brittan

THE MOST important force making for a property-owning democracy is not privatisation, nor official tax incentives for small investors. It is the passing on to a new generation of the homes which were acquired after the Second World War when home ownership became the main form of housing tenure.

In 1944 some 12 per cent of heads of households over the age of 65 were owner occupiers. In 1970 the proportion was still only about 25 per cent. But by 1984 it had risen to 50 per cent; and according to a projection in the November Morgan Grenfell Economic Review, it will be some 60 per cent by the year 2000.

The implication is that the typical family will receive a major inheritance some time between the middle life and the retirement of its own principal breadwinner. The average inheritance per household is now estimated to be £35,000, more than three times the average household disposable income of £11,000 per annum.

Most of the comments on the Morgan Grenfell findings have concentrated on the financial implications. For instance, some dampening influence on house prices may emerge. Second generation inheritors who are themselves already owner occupiers, are likely to sell rather than retain their new properties, thus increasing the supply of houses coming on to the market.

Even if the middle-aged inheritors pass on the properties to their own children the effects will be similar. For young adults who have received a home from their parents will be removed from the mainstream housing market. The new owners, who already have their own homes, will tend to diversify their wealth into financial assets. Housing inheritance is estimated by Morgan Grenfell at £7bn in 1987 rising to £24bn in 2000, assuming an average 8 per cent annual increase in house prices.

The resulting investment flows should lead to a shift away from the non-discretionary assets such as pension funds and residences, which have seen such rapid growth in the last four decades, to discretionary assets, such as unit trusts, building society deposits, single premium life policies and other financial holdings.

The inherited property coming on to the market, on which no mortgage previously obtained, will in most cases be bought through loans from building societies and banks. Taking both personal liabilities and assets side together, Morgan Grenfell's expectation is that they should grow a good deal faster than income. A possible implication is that both credit and broad definitions of money could continue to grow at double digit percentage rates with little overall inflationary implication.

But to my mind the most interesting implications are social rather than financial. We may at long last be in sight of a democracy where most people can look forward to substantial free property not tied up in their own residences or occupational pension schemes – even though this is likely to occur fairly far on in life when their greatest personal expenditure on child rearing and home-building is over.

Unfortunately, however, the gap between the inheritors and the rest of the population will widen. Even by the year 2000 some 40 per cent of those over 65 will not be home owners. An important minority of households will thus inherit little or no property, either because of the absence of property owning parents, or because of bad luck in coming from large households. Thus, although wealth may be better spread over the property owning majority, the gulf between it and the underclass could increase.

Our aim for the turn of the century should be a society in which households have two sources of income : one from work and one from property. This is important both for social reasons and because it should remove some of the arguments against wage flexibility. Unfortunately, in the case of housing inheritance, it will have made least progress at the lower end of the income scale, where it would be of most benefit.

To my mind these are further powerful arguments for some kind of state-guaranteed minimum income, social dividend, or negative income tax (choose your own favourite label) to spread these advantages more widely throughout society. We may have to begin in a very small way and the withdrawal rates as income rises may have to be very high. But here nevertheless is the step required to complete the formation of a property-owning social-market economy and also the beginning of the post-Thatcher agenda, if anyone is looking.

Letters to the Editor

The better part of valour

From Dr Ruprecht Vondran, German Iron and Steel Federation.

Sir, You have had several reports recently stressing the efficiency and profitability of the British Steel Corporation. Allow me to congratulate the management of BSC on having mastered a severe structural crisis.

"Welcome to the circle of private European steel producers," we Germans hail BSC - in anticipation of the event. However, there are also those among us who question BSC's demanding bigger market shares on the ground of its improved performance. They also wonder that it does not decisively counter British Government calls for the abolition of the quota sustem which is still needed for some time to limit the damage for the little or non-subsidised producers caused by the heavily state-aided companies.

What they object to is that BSC conveniently forgets that the turnaround was due also to the British taxpayer. Since 1975 the Chancellor of the Exchequer had to debit the British budget with £8.3bn to the credit of BSC. That was nearly 13 times as much as the German steel industry received in aid per tonne of steel.

One should keep in mind that: Considering the inflow of £8.3bn in aid, a 1986 £178m profit is rather modest. After a ten year period of heavy losses, return on capital amounts to only 2 per cent. Against that, British Government issued loans are paying about 10 per cent interest at present.
At financing costs comparable to those the EC Commission used in its calculations for privately owned firms (4 per cent of turnover), BSC's 1986 profit would be down £119m.
BSC has profited from the devaluation of the pound sterling. At the 1984 exchange rate BSC's profit would be down another £230m.

These extraneous factors, which greatly helped to land the company in the black, should not distract from its genuine achievement. However, in business life, as in love, "discretion is the better part of valour." This should also apply to the lovers of public money turned virtuous.

Ruprecht Vondran,
Breite Str.69,
4000 Dusseldorf 1,
West Germany.

The rot has now been stopped

From Sir Charles Villiers

Sir, - I write to congratulate you on the six articles about British manufacturing, which finished with "Need to Bolster Confidence" by Michael Prowse on November 30. He wrote: "It would have been neither possible nor sensible for the UK to maintain the double digit manufacturing trade surpluses of the immediate post war years."

I wonder why not. The Japanese and Germans have done so. There is a suggestion here that, because of improved British agricultural performance and North Sea oil exploitation, British manufacturing industry was bound to lose its position of earning trade surpluses.

But why? The reason, in fact, was that we made bad cars, expensive steel, unfashionable garments, poorly designed machine tools etc. We were not bound to do that and we have now stopped the rot.

We all hope the manufacturing improvement will continue, and at a pace at least to offset the forthcoming decline in North Sea oil revenues.

I cannot see why it is impossible or stupid for Britain to continue this process to the point where British manufacturing industry again earns trade surpluses, thus creating more wealth and employment at home and enabling us to invest more abroad, as we have done, much of the time, for two centuries.

Charles Villiers,
65 Eaton Square, SW1

Issues have yet to be resolved

From Mr G.C. Mason.

Sir, The report headed "CBI opposes disclosure of spending on R and D" (December 9) refers to a letter from the CBI to the Accounting Standards Committee which does not exist. We have not yet made a submission on the proposal for an accounting standard requiring disclosure of R and D expenditure.

The fact is that the issues quoted in your report have yet to be fully resolved in our consultations with members; and until that has been done we do not have a formal view.

G.C. Mason,
Confederation of British Industry,
Centre Point,
103 New Oxford Street, WC1

The tribute should go to Rakhmaninov

From Mrs Noretta Conci-Leech.

Sir, I learned many years ago not to take issue with the artistic judgement of music critics, generally agreed to be subjective. One cannot, however, be subjective about facts.

On November 23 Andrew Clements reported on the recital by Vladimir Ovchinikov, winner of this year's Leeds International Piano Competition, and compared his capacity to sustain the tension of the first movement of Rakhmaninov's Second Sonata, played in the original uncut version, with that of Horowitz.

While flattering in itself, that might have been a more valid comparison if Horowitz actually played the long 1913 version; in fact he recorded neither that one nor the revised 1936 version but a shortened arrangement of his own. The tribute should therefore go not to Horowitz but to Rakhmaninov for removing the more languorous material from the original version.

Before that we are told that one Ian Hobson played the Mozart concerto reserved for the Leeds winner three days after the prize-giving at the Barbican. For the record, Ian Hobson was himself the winner at Leeds in 1981. This year's runner-up to Ovchinikov is the 24-year old Australian Ian Munro.

Should we expect those who so meticulously assess the fidelity of other people's performances to review the accuracy of their own?

Noretta Conci-Leech,
8 Chester Square Mews, SW1

Radio Four on Long Wave will continue

From the General Manager, Operations and Engineering, BBC Radio

Sir, Mr Bruce Adkins (Letters, December 1) displays some of the same misconceptions as your earlier correspondent, Mr P.T. Walker (November 7).

We are, of course, delighted to have an audience for Radio 4 in mainland Europe, although I have no evidence that it is "huge." But we must acknowledge that the primary responsibility of our domestic services is to our licence payers in the UK.

Nevertheless, I can reassure Mr Adkins, as I sought to reassure Mr Walker, that Radio 4 on Long Wave will continue for the foreseeable future, with any changes recently signalled representing simply our determination to make the best use of the Long Wave and VHF channels for the programmes we presently broadcast. The completion of United Kingdom VHF coverage is a crucial element in this equation.

Radio 4 on Long Wave is but a youngster and, while I am well aware of the dangers of making predictions in these rapidly changing times, I would judge it to be strong and healthy.

Simon Shute,
Broadcasting House, W1

Claims made in a numbers game

From the General Secretary of NALGO.

Sir, In their enthusiasm for their new fused "MSF" union, my colleagues Ken Gill of TASS and Clive Jenkins of ASTMS are making some outlandish claims. They say (December 8) that the MSF will be the "third largest union affiliated to the TUC."

This will come as news to the AEU, which is really the third largest; and indeed NALGO, which with 750,000 members will be 50-100,000 members larger than the MSF - which will be only the fifth or sixth largest.

John Daly,
1 Mabledon Place, WC1

There is nothing special about increased NHS demand

From the Head of the School of Economics, South Bank Polytechnic.

Sir, While I agree with many points in John Lloyd's article ("The incurable demand for care," December 5), I feel it lays excessive emphasis on the notion that demand is "potentially bottomless," and that in the health service "the wounds are self-inflicted". I fear this emphasis might lead to the wrong policy conclusions for the health service.

Technical advances can undoubtedly lead to increase in demand for health care: however, there is nothing special about it. This is a pattern which is common to other services and products. To take an example: the improvements in communication and transportation have led to increased demand for these services from both business and the private consumer. Another example can be drawn from technical progress in the arms sector: the development of new weapons for attack leads to increase in demand for them, followed by research and increased demand for defence weapons, which leads to the need to develop more weapons for attack...

The health service is, in fact, one of the few areas where appropriate programmes can generate considerable cuts in certain sections of demand: this could be achieved through large efforts in preventive medicine and health education.

That section of demand connected with technical advances in medicine would still be growing: but surely an advanced society and economy should give high priority to the meeting of such demand.

Grazia Ietto-Gillies,
Borough Road, SE1

FINANCIAL TIMES

Monday December 14 1987

Janet Bush on Wall Street

Tidings for a volatile new year

NO MARKET economist ever gets it all right all of the time and Salomon Brothers' guru Mr Henry Kaufman is no exception. But, in the humbled circumstances of post-crash Wall Street, the hunger for the views, opinions and research of others is voracious.

Thus it was that Mr Kaufman, who continues to have an extremely high profile, had the tinsel-bedecked grand ballroom of the New York's Waldorf Astoria packed with expectant colleagues, competitors and fans from Wall Street, several television networks and a herd of financial journalists.

The message from Salomon did not make particularly heartening listening. Mr Kaufman and his colleagues are expecting the severest of challenges in the year ahead.

There will no doubt be a flurry of reviews and forecasts from major Wall Street firms as Christmas approaches and they will differ in emphasis, sense of timing and degree. But there is one word which will crop up with monotonous regularity – volatility.

Eager for a colourful statistic to relieve the gloom of the forecast, Salomon Brothers' Mr Jeffrey Hanna pointed out that this year's review contained the words "volatility" and "volatile" 107 times, compared with only 10 times two years ago.

Here are a couple of sentences as illustration: "In the 1980-82 period...when yield volatility on the 30-year US Treasury bond reached a record of 18.6 per cent, the volatility of 20-day volatility was 24.3 per cent. By contrast, yield volatility was 16.7 per cent in 1987, but the volatility of volatility was an extremely high 42.4 per cent." (Volatility of volatility is the standard deviation of rolling 20-day volatility divided by its mean).

Behind all this, there is a serious point which is that securities houses and investors will have to take account of extreme price swings in their investment strategies.

It may seem terribly obvious to point out that the equity market has become more volatile and yet it sometimes seems that stock analysts have forgotten this blindingly clear fact.

So it is that when the Dow jumps 50 points in a day, the bear market is over and when the Dow falls by the same margin on the next day, we are again on the brink of a recession. Yet, any short-term analysis on the basis of a rational view of economic prospects and policy is made redundant by a day like last Thursday, when October's disastrous US trade figures were released. The Dow Jones Industrial Average plunged 50 points, rose 60 and then dropped 60, leaving the market where it had stood after half an hour's trading.

For the long-term investor with the nerve to weather these short-term swings, volatility shouldn't be too much of a problem. It is a far more frightening prospect for professional traders and more active investors.

Salomon Brothers has a number of suggestions. It recommends that investors who hold dollar-denominated assets should maintain very short-term portfolios throughout next year, most obviously through buying traditional short-term and floating-rate assets.

More fancy alternatives would offer greater returns – one suggestion is the creation of synthetic short-term or floating-rate investments through the combination of attractive longer-term investments with a variety of hedge vehicles.

Researchers at Credit Suisse First Boston are blunt: "Steer clear of equities or hedge as best you can." CSFB predicts a rise in volatility of all financial assets next year caused by the impossibility of maintaining government targets for a wide range of economic variables, consequent shifts in policy and the instability built up this year.

"The rational strategy for investors under these circumstances is to buy puts and calls as a speculation on volatility rising, or to buy puts to insure the value of existing assets against price fluctuations," it says.

Moreover, CSFB recommends purchase of currency options before the year is out because they do not appear yet to reflect recent rapid movements in currency rates and therefore look cheap.

The importance of options as a hedging tool in turbulent markets is undoubted and will, if anything, become more central to investment strategies. And yet the more speculative derivative products, such as stock index options and futures, which have enabled institutional fund managers to adjust stock portfolios more quickly and cheaply (indispensable in volatile markets) have come in for a great deal of criticism since the October crash.

There will be many who will thank the Securities Exchange Commission for attempting, in its review of the market crash, to steer a middle course between stifling the innovation of products which serve as useful hedging tools and curtailing the power of those instruments which may have made volatility more extreme.

Ian Rodger in Tokyo reports on a double mission to Manila by Japan's Prime Minister

Enter Takeshita, bearing gifts

NOT SO long ago, Japanese prime ministers made their first foreign trips to the US to seek favours. Now they go to neighbouring Asian countries, bearing gifts and seeking friendship

Thus, Mr Noboru Takeshita, who became Japan's Prime Minister a little over a month ago, is off to Manila on Wednesday. He will be on a double mission – making an official visit to the Philippines and participating in the summit of the Asean countries which opens today – the only outside head of government invited to do so.

He will be taking generous gifts – both material and political – for his hosts, but he knows he will receive at best a mixed reception. Most Asian countries harbour considerable resentment of Japan, not just from the Second World War, but mainly from the country's failure so far to share much of its prosperity and success with its neighbours.

Mr Noboru Takeshita: can expect a mixed reception.

Now, however, Japan is trying hard to change its ways, opening its market to imports from Asian countries and promoting industrial development in them. Imports from most Asian countries into Japan have been growing rapidly this year, and Japanese direct investment in those countries is second only to investment in America.

Mr Takeshita will promote both trends during his visit to Manila, announcing further market-opening measures on several products of interest to Asean countries, and offering a huge new aid programme.

In fact, the $2bn aid programme for Asean countries has already been announced as part of Japan's plan to recycle $30bn of its current account surpluses. However, that programme has been poorly received so far, because Asean countries know that Japanese aid comes in yen, which continues to increase in value, and with relatively high interest rates, 3-4 per cent.

Mr Takeshita has been attempting to win agreement within the Japanese Government to cut interest rates, and it is virtually certain that when he addresses the concluding session of the summit on Wednesday he will be able to announce a victory. If so, the programme could be an interesting one.

The last $1bn special aid programme offered by Japan to Asean countries in 1977 was designed for big, government-sponsored, basic industrial projects. It flopped because the countries could not agree on which should have which project. This one is aimed at providing funds to small, private-sector ventures, to be identified by development banks in each country.

The Japanese Prime Minister will also promise to reduce protection on several products which Asean countries would like to export to Japan, mainly food and agricultural goods. However, he could run into criticism for stalling a recent Gatt demand that Japan remove its restraints on imports of starch. A number of Asean countries would love to export sugar beet to Japan.

On the political front, he will express support for Prince Norodom Sihanouk, who heads a coalition of three parties opposing the Vietnamese-backed Government of Kampuchea, and he will support Asean efforts to achieve peace in that country.

He may also propose new measures to strengthen cultural exchanges with Asean countries. This is a euphemistic phrase for attempts to make Japanese people less callous towards their Asian neighbours, especially when they set up industries in their countries. Just last week, Mr Takeshita was warned by a team of senior Japanese businessmen who have been studying the problem that the danger of "cultural friction" in the region was growing.

For the Philippines, Mr Takeshita's most important gift is probably that of Japan's unqualified support.

This is a far cry from Japan's ambiguous stance a year ago when Mrs Aquino paid an official visit to Tokyo. At that time, when her Government was looking rather fragile, Japanese officials attempted to avoid answering questions about their attitude to her. Now, however, there is no equivocation. "We do not view her Government as transitional," one official said last week. "It is well established legally, and we are ready to continue to strengthen our assistance."

That assistance is not inconsiderable. Japan's last three-year loan plan, agreed in December, 1985, amounted to Y50bn ($372.6m). This week, Mr Takeshita will sign a new agreement for Y80bn.

Having done all that, he will get back to Tokyo as fast as he can. His Manila trip has been cut from three days to two out of fears for his security, and Japanese officials breathed only a partial sigh of relief last week when Colonel "Gringo" Honasan, who led a coup attempt against Mrs Aquino last January, was arrested. Whether that will cause offence remains to be seen. Most of the other visiting heads of government will probably not linger in Manila either.

Airbus row may mar transatlantic accord

BY TIM DICKSON IN BRUSSELS

TRADE relations between the European Community and the United States have seldom been better, Mr Clayton Yeutter, the US Trade Representative, said at the weekend. But the simmering row over the Airbus airliner could yet erupt into a bitter transatlantic conflict, both sides warned on Saturday.

Mr Yeutter was speaking during ministerial trade talks between the US Government and the European Commission in Brussels on Saturday. His upbeat assessment reflects the settlement or successful defusing of several outstanding trade issues in recent months.

Airbus is by far the most sensitive remaining issue. The US alleges unfair subsidies are paid by European governments to manufacturers of the airliner. This was the subject of a special meeting last Friday between Mr Yeutter and Mr Willy de Clercq, the EC's External Relations Commissioner.

Both said they were hopeful of finding a solution. A European Commission official indicated that sticking points include the status of Government participation in companies' equity, the extent to which currency fluctuations should be taken into account in pricing, and the degree of transparency of subsidies.

"We still have very fundamental differences on this issue", Mr Yeutter stressed. "It will not be easy to bridge the gap. Time will tell whether we can do so."

Friday's session had at one stage been billed as the "crunch" meeting but both sides agreed that more technical discussions were needed to build on the progress made at and after key talks in London in October. Mr de Clercq told journalists on Saturday that experts on both sides would meet in January. Another Ministerial meeting will be held with the US and the four Governments involved (Britain, France, West Germany and Spain) "some time early in the New Year, probably in February," he said.

Sharp differences also remain on the whole orientation of Europe's Common Agricultural Policy (CAP). Mr Yeutter would not be drawn on the EC's recent failure to agree a package of budgetary and agricultural reforms at the Copenhagen Summit, but he warned that "if the Community is unable to begin to adjust its own agricultural programmes in a significant way certainly there will be additional confrontations".

Last week's continued slide in the United States dollar was barely discussed at the Ministerial talks though Mr Jacques Delors, President of the European Commission, expressed his concern at the currency's plight and the high US trade deficit.

Mr Delors was clearly disappointed that Mr James Baker, the US Treasury Secretary, or one of his top officials, was not in the US team "to make more precise suggestions". He appeared philosophical at Saturday's press conference about the European Commission's role in international monetary and financial affairs.

One specific and potentially explosive issue on the agenda was the question of impending EC legislation on abattoirs, which the United States claims will be a barrier to its meat exports. Mr de Clercq said 90 American abattoirs now conformed to EC standards and that many others would do so after minor modifications. US officials expressed scepticism at the these numbers and said the Commission had offered to delay implementation of the new rules, at least for high quality beef, for three months.

UK and France to talk on N-missiles

BY DAVID BUCHAN, DEFENCE CORRESPONDENT, IN LONDON

THE DEFENCE ministers of Britain and France will discuss at a meeting in London today the possibility of the two countries jointly developing an air-launched nuclear missile.

The Anglo-French co-operation was in prospect even before Mrs Margaret Thatcher, the British Prime Minister, last week voiced her belief that the Royal Air Force's free-fall nuclear bombs "will have to be modernised" if UK aircraft were to be seen as credible penetrators of Soviet air defences.

So far, the political leaders of Europe's two nuclear powers have approached the issue more cautiously than their military staffs. It had been feared that development of a European "cruise-type" missile would be seen as circumvention of the new treaty elimination of US and Soviet medium-range missiles and as distrust of America's nuclear guarantee of Europe.

However, such inhibitions, initially more marked in London than in Paris, are disappearing. Mr George Younger, the Defence Secretary, who will hold several hours of talks today with Mr Andre Giraud, his French counterpart, told the London parliament a month ago: "We will be glad to discuss a French air-launched missile in case there is any way we and France can collaborate in this important matter."

It is not clear whether the ministers are, in the words of one official, "ready to push the political button" to launch a feasibility study for the missile. But tactical nuclear weapons are seen as the one promising area of Anglo-French nuclear co-operation - not strategic systems because the UK is locked into buying the US Trident system. If there is a joint missile project, it would be the first time that the two countries have collaborated over the development of nuclear weapons.

One factor in the UK change of tone is that France is now offering genuine co-development of a second generation of its ASMP nuclear air-to-surface missile. When the French first raised the subject last year, UK officials gained the impression they just wanted to sell Britain the current version of the missile.

As fitted to Mirages since last year, the ASMP has a range (80 to 200 kilometres, depending on the height at which it is fired) shorter than the RAF would like. Aerospatiale, the maker of ASMP, confirmed last week in Paris it had studies to extend the missile's range, but as yet no French defence ministry contract to do so.

Its probable prime UK partner would be British Aerospace, which makes the only high speed UK air-to-surface missile, the conventionally armed Sea Eagle.

The Intermediate-range Nuclear Forces (INF) treaty, which by 1991 will remove all land-based US and Soviet missiles between 500km and 5,500km range, will place a new importance on the nuclear-armed aircraft of Nato's nuclear powers, the US, France and the UK. Of the three, Britain is the only one with no alternative to the old-fashioned free-fall nuclear bomb. The US has the air-launched cruise, but quite apart from arms control considerations, this is too heavy for existing UK and French aircraft.

America's baby boomers join the fat cats

Continued from Page 1

Every year between now and 2000 an estimated 4m men and women will celebrate their 35th birthday, boosting the boomer population from 44m to a peak of 64m.

They will inhabit more than a third of all households, and their real buying power will more than double, giving them control of well over 40 per cent of national spending power.

Concurrent with the evolution of the boomers, women have emerged as a potent force in home economics. Already more than 35 per cent of US financial managers, 20 per cent of doctors and 18 per cent of lawyers are female.

More are on the way in the mass of graduates moving into the boomer phase, the fruits of a national education system which absorbs 6 per cent of gross domestic product compared with 3 per cent in the late 1940s, and which now shares campus places 50:50 between men and women.

As their parents did before them, the boomers can be counted on to invest heavily in their children's education. Old-fashioned babies are still being produced even though 70 per cent of US women work.

Another boomer characteristic, late motherhood means fewer children, the study says, and suggests more relatively old parents with young children cluttering up the home. In the longer term it could bear out The Conference Board's declaration that the post-war bulge was "a unique demographic event."

We may never see the baby boomers' like again.

World Weather

		°C	°F			°C	°F			°C	°F			°C	°F
Ajaccio	C	14	57	Dubrovnik	C	11	52	Malta	S	19	66	Rhodes	S	14	57
Algiers	S	23	73	Edinburgh	Fg	-3	27	Manchester	C	5	41	Rio de J'o	-	—	—
Amsterdam	F	5	41	Faro	R	14	57	Manila	-	—	—	Rome	D	9	48
Athens	C	11	52	Florence	R	7	45	Melbourne	S	22	72	Salzburg	S	1	34
Bahrain	S	24	75	Frankfurt	C	-1	30	Mexico City	-	—	—	San Francisco	S	9	48
Bangkok	S	32	90	Funchal	F	19	66	Miami	S	15	59	Seoul	S	1	34
Barcelona	F	14	57	Geneva	C	-1	30	Milan	S	6	43	Singapore	C	25	77
Beirut	C	19	66	Gibraltar	C	16	61	Montreal	C	-1	30	Stockholm	S	1	34
Belfast	C	5	41	Glasgow	S	-2	27	Moscow	S	-19	-2	Strasbourg	F	0	32
Belgrade	S	-1	30	Guernsey	C	12	54	Munich	C	-4	25	Sydney	S	24	75
Berlin	Sn	-4	25	Helsinki	Sn	-3	27	Nairobi	-	—	—	Taipei	S	18	64
Biarritz	R	9	48	H. Kong	S	17	63	Naples	D	11	52	Tangier	C	16	61
Bombay	-	—	—	Innsbruck	S	-1	30	Nassau	-	—	—	Tel Aviv	F	19	66
Bordeaux	C	11	52	Inverness	F	0	32	New Delhi	F	14	57	Tenerife	C	21	70
Brussels	Fg	0	32	Islamabad	-	—	—	New York	S	4	39	Tokyo	Sn	1	34
Budapest	Fg	-3	27	Istanbul	F	7	45	Nice	S	13	55	Toronto	C	1	34
B. Aires	S	24	75	Jakarta		—	—	Nicosia	-	—	—	Tunis	S	22	72
Cairo	S	19	66	Jersey	C	1	34	Oporto	F	13	55	Valencia	D	14	57
Cape Town	S	21	70	Jo'burg	F	24	75	Oslo	F	-3	27	Venice	C	3	37
Caracas	S	28	82	[illegible]		—	—	Paris	C	-1	30	Vienna	F	-1	30
Casablanca	F	17	63	Lisbon	R	15	59	Peking	S	5	41	Warsaw	C	-1	30
Chicago	C	0	32	London	S	6	43	Prague	S	-2	28	Washington	F	6	43
Cologne	C	2	36	Los Angeles	S	9	48	Reykjavik	C	7	45	Zurich	C	-1	30
Copenhagen	C	3	37	Luxembourg	C	-3	27								
Corfu	R	12	54	Madrid	C	11	52								
Dallas	C	4	39	Majorca	C	14	57								
Dublin	S	7	45	Malaga	C	14	57								

Readings at mid-day yesterday

C-Cloudy D-Drizzle F-Fair Fg-Fog H-Hail R-Rain S-Sun Sl-Sleet Sn-Snow T-Thunder

Agreement eludes Opec

Continued from Page 1

likely to result in a significant erosion of prices below the present reference of $18 set a year ago.

The general consensus was that the spot rate for Brent blend, the key North Sea crude oil, could fall to as low as $15 by mid-January for deliveries in the following month.

Opec's basic common denominator of collective self-interest appears to have been almost fatally fragmented by heightened Arab-Iranian hostility as a result of the Gulf conflict.

Saudi Arabia and Kuwait were understood to be holding out for an open-ended extension of the accord reached here in June, which set a ceiling of 14.06m barrels a day for 12 of the 13 members, excluding Iraq, which refused to be a party to it.

Venezuela has been in the forefront of objections to an arrangement which would effectively constitute a licence for Iraq to pump as much as its export capacity will allow for the indefinite future.

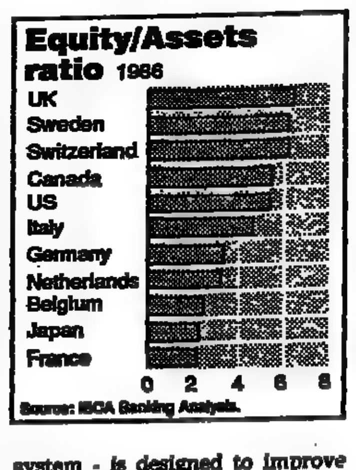
Iraq's recent output is thought to have been as high as 2.7m b/d, compared with an allocation granted it by other members of 1.54m b/d.

THE LEX COLUMN

Banking on the equity capital

It is over five years since Mexico's financial crisis first focused attention on the unhealthily low levels of capital that the world's major banks were maintaining against billions of dollars of loans of suspect quality. The ensuing Third World debt problems have taken a heavy toll on both the reputation and financial health of the international banking community. The share prices of many of the world's most prestigious financial institutions trade at a substantial discount to net asset value - implying a certain scepticism about the value of their assets - and the fact that many multinational companies have a better credit rating than their bankers, and can borrow money more cheaply, is a further embarrassing reminder of how far bankers have slipped in the corporate pecking order.

While the reasons for the decline of the international banks are complex, the bank regulators realised even before the debt crisis that their most urgent task was to encourage banks to repair their badly eroded capital base. The subsequent improvement in bank capital ratios has been impressive, but little progress has been made so far in solving an equally serious problem - the widely varying capital ratios observed by competing international banks.



Profit decline

This is thought to be one of the key factors behind the declining profitability of many international banks during the mid-1980s, and has also contributed to the regulators' concern about the deteriorating quality of bank loan portfolios. It is clear that the balance between the pricing of new banking business and the acceptance of the risks involved - the so-called risk/reward ratio - shifted the wrong way during this period.

The Japanese and French banks, for example, observe lower capital requirements than other international banks, and have been able to grow rapidly by taking on lower margin business. This forced the competition to either concede market share or accept lower returns in order to maintain their position. Many banks followed the latter course and some have landed on the regulators' problem lists as a result.

As international banking became both more risky and less profitable during the 1980s, the world's central bankers became increasingly worried about the long-term prospects for some of their flock. One solution - deregulating the world's financial system - is designed to improve bank profitability, but it may increase the risks in the banking system. Last week, the world's leading bank regulators proposed a more subtle solution to the problem, which over the long term could be more effective, and could also help control the risks associated with the worldwide trend towards deregulating the banking business.

Capital ratios

The central banks of the G10 countries unveiled a common framework for measuring bank capital adequacy and suggested the first ever minimum capital standard for all international banks. The consultative paper is a complex document, but at its simplest involves the calculation of a bank's capital as a percentage of its assets - weighted in terms of risk. While there are plenty of loose ends to be tied up, and there remain considerable differences of opinion between some of the major participants, the intention is that within three years all international banks will be observing a minimum capital ratio of 7.25 per cent which will rise to 8 per cent by the end of 1992. If this timetable is met, without any significant backsliding along the way, it will mark a major turning point in the fortunes of the international banking industry.

As recently as nine months ago, when the Bank of England and the Federal Reserve published their joint proposals on capital adequacy, it seemed unthinkable that the remainder of the world's major central banks could be marshalled into line so quickly. The EC had already spent a considerably longer period trying to agree on a common definition of capital and a solvency ratio for its banks, and reacted with some initial hostility to the Anglo-US initiative. Meanwhile Japan, home of seven of the world's 10 biggest banks and author of some decidedly unorthodox regulatory practices, seemed a major stumbling block to any multinational accord, at one stage. There remain areas of disagreement, but the scale of the achievement should not be underestimated. If all goes well the world's major international banks, including those from countries outside the G10 countries, should all be playing by the same set of rules within five years.

Implications

It will be some time before the full effects of the new proposals are felt but there are already signs that they could have a significant impact in particular sectors of the banking market. The trend towards securitisation in the UK mortgage market, for example, could be halted by the fact that banks only have to assign a 50 per cent risk weighting to mortgages. This means that a UK clearing bank now needs only half the capital to support the same level of mortgage lending as before. This will enable the UK banks to compete more effectively with building societies and means that there is far less pressure on banks to remove mortgage lending from their balance sheets by securitising assets.

The impact on individual banks is complicated by the fact that published equity to asset ratios are often misleading. Nevertheless, the British and Swiss banks appear less affected by the proposals than some others, while the French, Belgian and Japanese banks are likely to face pressure to increase their capital. US money centre banks also appear more vulnerable than some, because they have blurred the boundary between capital and provisions in their well publicised efforts to adjust their balance sheets for the decline in their Third World loan exposure.

While the content of last week's proposals may seem complicated, and the effects on individual banks may take time to surface, the basic message is that strongly capitalised banks will be in a better position than before. The importance of published equity capital as a disciplining force in bank balance sheets has been re-inforced by a re-affirmation of its role as the cornerstone of bank capital. As noted in the proposals, core equity capital is the basis on which most market judgements of capital adequacy are made and has a crucial bearing on profit margins and a bank's ability to compete.

Happy Christmas from TAYLOR WOODROW

SECTION II – COMPANIES AND MARKETS
FINANCIAL TIMES
Monday December 14 1987

Happy Christmas from TAYLOR WOODROW

INTERNATIONAL BONDS

D-Mark shines through veil of pre-Christmas gloom

"THERE ISN'T a busy person in the Eurobond market – apart from those looking for a job, of course," said one syndicate manager on Friday afternoon.

His five-strong syndicate and new-issues trading team, he added, were variously employed playing backgammon, putting on their coats (since the pubs were due to open in an hour), and sleeping.

So much for the cut and thrust of the international capital markets. The Eurobond market has decided to forget it all until the new year and has settled in for a good long session of pre-Christmas torpor.

In this less-than-vibrant atmosphere, even last Thursday's news that the US trade deficit stood at a massive $17.63bn in October left the Eurobond sector almost unmoved.

Though in the Eurodollar market prices were marked down broadly in line with US Treasury bonds, very little actual business was done. Unofficially, many dealers had already squared their books and closed down ahead of the Christmas holiday.

As justification for this unwillingness to trade, one dealer said: "It's not surprising people are taking an early break. It's been a simply awful year and it would be a fool's game to open up a position with this amount of confusion about which way the market is going to move."

One thing, however, is clear. The plunge in the dollar last Thursday underlined the extent to which the trade deficit problem is at the heart of the dollar's weakness. As Nomura economist Mr Mark Cliffe points out: "Even if the US succeeds in cutting the budget deficit, if the trade deficit fails to fall significantly the dollar will remain under downward pressure."

The US Administration has made it clear that as long as the fear of recession remains it will be disinclined to support the currency by raising interest rates.

As far as the bond market is concerned, its fate will depend not only on the trade deficit but als on on US economic growth. The problem is that at the moment an almost unprecedented degree of uncertainty prevails about what the US economy really looks like in the wake of the stockmarket crash in October.

Recent data have shown that the economy was stronger going into the crash than had previously been supposed and that production has since been buoyant with large increases in employment in October and November.

This has helped take the wind out of the bond market, which rallied strongly in the immediate aftermath of the crash. But the picture is blurred. Last Friday's unchanged November producer prices figure was mildly encouraging for the bond market, suggesting that inflationary pressures are still at bay.

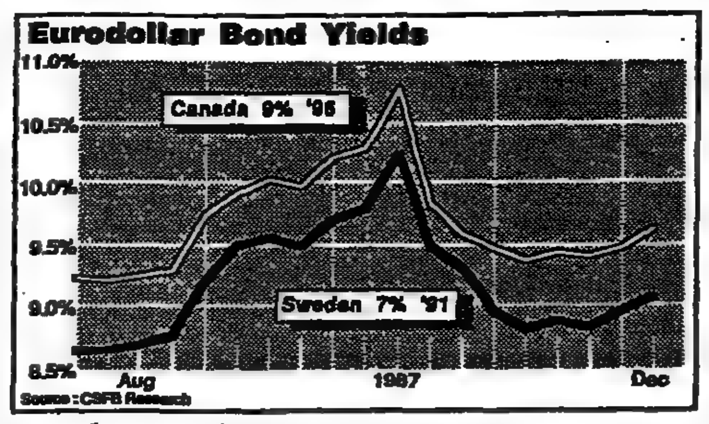
Nomura Research's weekly review of bond markets sets out four possible scenarios for the US deficit and economic growth, and indicates what these would imply for the dollar and the bond market.

● *The trade deficit remains high, economic growth weakens substantially.* This would point to a lower dollar but also possible further weakness in the equity market, triggering cuts in short-term rates, so the dollar's fall could gather momentum. The long end of the bond market might then take fright at the prospect of higher inflation.

● *Trade deficit high, economic growth strong.* A "deadly combination" in which the long end of the market would be highly likely to fall foul of inflation fears.

● *Trade deficit and economic growth both fall substantially.* This would help the dollar, while the US authorities might decide to cut interest rates sharply.

● *Trade deficit falls, economic growth strong.* The US authorities might be prepared to tolerate a rally in the dollar. Cuts in short-term rates would be less likely, but the stronger dollar would offset growth-induced worries in the bond market.



It was not surprising to find that primary market activity was virtually at a standstill last week, as the secondary Eurobond sector ground quietly to a halt.

The week saw only a negligible amount of new bonds, and many of these appeared to be specialised deals which were probably pre-placed with particular investors.

True, this low level of activity is not unusual at this time of year. However, dealers still said they might have expected more activity, inspired by last-minute efforts by issuing houses to boost their positions in the bookrunner league tables by the year-end.

This is because, in previous years, houses have felt confident about launching a bond before Christmas and holding it until the retail enquiries started coming in the New Year. But in the current climate of uncertainty few houses are happy to do this.

Even the non-dollar sectors, which might be expected to be reaping the benefits of the dollar's fall, are becalmed, reflecting the prevailing lack of enthusiasm to deal.

However, another reason may be that, though their currencies are strong, there appears to be little scope for interest-rate falls in either the yen or the D-Mark sectors. The Japanese have been able to argue that their economy is too strong to take such a step. Meanwhile, it was no secret that the Bundesbank cut West Germany's discount rate to 2½ per cent at the beginning of the month only with the greatest reluctance.

In very quiet trading, the average yield on domestic bonds managed to move only slightly – and upwards – from 5.89 per cent to 5.91 per cent during the week.

However, the D-Mark was definitely the bright spot of the lacklustre new-issues market. It has seen DM2bn worth of new bonds during the first two weeks in December, which compares with only DM600m in the same period in 1986.

Last week saw four new issues, most of which met fairly good demand in spite of the low level of activity overall in the market. For instance, on Friday a DM300m 5¾ per cent bond for **Swedish Export Credit** was quoted at 99⅞ bid, compared with a 100⅛ issue price and 2 per cent fees.

The only bond that did not seem to trigger much demand was a DM200m deal for **Mount Isa Finance**, a unit of the Australian mining concern, MIM Holdings. This was quoted on Friday bid outside its 2¼ per cent fees at variously less 2.15 and 2.40.

Clare Pearson

Bear Stearns: a correction

LAST FRIDAY, the FT incorrectly stated that an agreement between Bear Stearns Companies Inc and Jardine Strategic Holdings, for Jardine to buy 20 per cent of Bear Stearns for approximately $390m, was intended to increase the capital available to the Wall Street firm.

In fact, the agreement, which was made on September 30, involved the sale of stock in Bear Stearns by the company's shareholders, not by the company itself. None of the proceeds of the offer was intended to accrue to Bear Stearns. Bear Stearns has stated that it had no need for additional capital when it entered the agreement with Jardine and no such need has arisen since then.

The FT was also incorrect in its assertion that "Bear Stearns' need for a capital injection has become even more urgent" as a result of the stockmarket crash of October 19. Bear Stearns' capital before the crash was $1.4bn and has remained essentially unchanged since then.

On Thursday last week, Bear Stearns announced that it had taken legal action against Jardine for wrongfully terminating the September 30 agreement. The FT wishes to withdraw the statement that this lawsuit might have been "a sign of desperation by the brokerage company."

Eurocredit mandate terms to come under scrutiny

WHILE THE Eurobond market's Christmas cocktail parties are predictably shrouded in gloom and not a little fear, those attended by bankers in the Eurocredit market have a more sprightly air. They are looking back on a good flow of business in 1987 and looking forward to an even healthier outlook for 1988.

The key question, however, is how profitable next year's business will be. A string of corporate borrowers have been tapping the markets for large financings in the past few months. Many have won fine terms and a number of recent deals have been oversubscribed.

But the age-old syndrome is re-emerging: mandates are won with highly competitive bids which, many bankers would feel, produce over-aggressive terms. Despite their feelings, banks pile into the deal because they feel it is essential to maintain or establish a relationship with the borrower.

Of course, there is a strong argument that this is just good old competition working to provide the most efficient funding. However, the effect in the past has been to produce substantial business of questionable profitability for lenders and – more important – on terms unreflective of the credit risk involved.

The progress announced last week by central bankers towards common capital adequacy standards both for on- and off-balance sheet lending will eventually force banks to build in more realistic pricing. One central banker said that a factor spurring the development of the proposed new standards had been "a tendency for the risk/reward ratio to get out of kilter." Competitive pressures, he said, had distorted the ratios between risk and pricing of credit.

It would be unfair to suggest that all recent deals have been too aggressively priced. However, the terms of each new mandate will be under intense scrutiny in the market.

Among recent oversubscribed deals are a seven-year credit for **Household Finance** of the US, increased from $500m to $655m; the $600m credit for **American Brands**, reported to be substantially oversubscribed; a $450m loan for **Saatchi and Saatchi**, said to be "appreciably" oversubscribed; a $700m financing for **Volvo** – despite its fine terms, subscriptions to the $350m committed portion so far exceed $500m; and a FFr1.5bn financing for **Agence Havas**, which received FFr2.77bn of commitments.

Meanwhile, the flow of new mandates is slowing ahead of Christmas. The largest is a $600m multi-option facility for **RJR Nabisco**, the US food and tobacco group, being arranged by Bank of America International to replace an expiring $400m facility. Terms of the five-year facility, including a 6.25 basis point spread over Libor and a utilisation fee of 6.25 basis points if drawings exceed one-third of the total, are the same as before with the exception of the facility fee, which has been cut to 8 from 10 basis points.

Waterford Glass Group of Ireland has mandated Chase Manhattan to arrange a £100m five-year multi-option facility on terms which many bankers viewed as aggressive: a 6.25 basis point facility fee, a 10 basis point margin over Libor, and a 2.5 basis point utilisation fee if more than half drawn. Chase is understood to be seeking participations of £12½m with a 5 basis point front-end fee, though it declined to comment on this. It did say that it had already encountered interest from several banks.

Waterford reported that profits increased from I£9.53m to I£12.03m in the first half of 1987, helped substantially by its acquisition of Wedgwood in November 1986. Its crystal operations have suffered severely from the falling dollar and lower tourist spending and it has laid off a quarter of its 3,000-strong Irish workforce.

Other credits include an Ecu200m five-year loan for **Federazione Italiana dei Consorzi Agrari**, a grouping of farmers' co-operatives, mandated to Sumitomo Bank and Istituto Bancario San Paolo di Torino with a 20 basis point margin above Libor, a commitment fee of 12.5 basis points, and front-end fees ranging up to 12.5 basis points.

United Scientific Holdings of the UK mandated Barclays de Zoete Wedd for a £100m multi-option facility including a £50m five-year committed credit. **Great Western Bank**, a US savings bank, is seeking a $200m three-year revolving underwriting facility through Merrill Lynch International with a 10 basis point commitment fee.

In the Eurocommercial paper market, Canada's **Federal Business Development Bank** has a $400m programme arranged by Citicorp, with First Chicago and Swiss Bank Corporation International as additional dealers. **ISC Investments**, a subsidiary of International Signals and Controls, has increased its programme from $50m to $175m and added Merrill Lynch as a dealer alongside Bank of America International and SBCI.

State Bank of Victoria has a $250m programme with SBCI, Warburg and Shearson Lehman as dealers. Merrill Lynch is sole dealer for a $100m programme for **Primary Industry Bank** of Australia, a subsidiary of Rural and Industries Bank of Western Australia. **Century Leasing (UK)**, a subsidiary of a Japanese leasing company, has established a $100m programme with the guarantee of Dai-Ichi Kangyo Bank and five dealers.

In sterling paper, **Scottish Metropolitan Property** is to have a £50m programme arranged by Barclays de Zoete Wedd with Kleinwort Benson and J. Henry Schroder Wagg as additional dealers. **Y J Lovell**, a UK construction company, is establishing a £25m programme through Kleinwort Benson with BZW as the other dealer.

Alexander Nicoll

EUROMARKET TURNOVER ($m)

Primary Market

	Straights	Conv	FRN	Other
US$	343.7	0.0	267.0	6,197.4
Prev	1,954.2	0.0	88.0	5,567.2
Other	1,040.2	0.0	821.3	435.4
Prev	3,284.3	0.7	899.3	590.8

Secondary Market

US$	15,705.1	1,657.3	10,175.9	8,010.1
Prev	15,280.7	1,575.2	8,973.1	5,832.6
Other	18,392.9	747.7	5,788.9	16,559.0
Prev	22,231.9	668.8	4,670.2	18,354.3

	Cedel	Euroclear	Total
US$	12,177.9	27,178.8	39,356.7
Prev	13,127.1	26,142.9	39,270.0
Other	19,147.0	24,637.8	43,784.8
Prev	20,811.6	29,768.7	50,580.3

Week to December 10, 1987 Source: AIBD

UK GILTS

A state of high anticipation

THE GILT-EDGED market approaches this week in a state of high anticipation. A welter of statistics will be published and each will receive a lot of attention.

Ever since the October share price collapse the question has been, what effect will the crash have on the real economy? More than ever, however, the authorities' usual advice of never to read too much into one month's figures seems appropriate.

The Bank of England and the Treasury believe they need at least one full quarter's figures before they can begin to make definitive judgements about the effect on output of October's steep fall in equity prices.

That said, preliminary evidence does seem to suggest that the economy has held up remarkably well. The CBI's economic situation report out today (Monday) indicates that manufacturers expect output to continue rising strongly over the next four months. Expectations for average prices are well above the levels for the summer, matching those at the beginning of the year.

It is still, however, a brave forecaster who with any great confidence draws "wealth effect" conclusions of any sort from today's retail sales figures for November – the most important indicator of consumer behaviour in the post-crash period to be released this week.

What the market will be watching for is any sign that its fears about inflation are well-founded. With long gilts currently yielding 9.86 per cent some analysts feel those fears may have been taken too far. But any upturn in producer output prices, a rise in underlying wages growth to 8 per cent and continued strong growth in monetary aggregates would serve only to confirm inflation worries and the perceived laxity in official monetary policy.

The last three days of the week could well prove the most interesting. Important monetary data (the PSBR on Wednesday and money aggregates on Friday) straddle a £1bn tender of convertible gilts and the figures on average earnings.

The PSBR numbers are expected to look good and a large surplus is expected – the combined effect of the lagged BP rights issue payment of about £1.6bn and the anticipation of continuing strong revenue growth and subdued expenditure. Money aggregates should also benefit from this.

The £1bn convertible gilt tender is designed to appeal to a wide range of investors. It gives those who concentrate on short maturities an option on the higher yields of the long end of the market. For a long gilt investor who is currently risk-averse, it offers the liquidity of a short-term gilt with the opportunity to switch long in seven months. Finally, it is free of tax to foreigners.

But the market's initial reponse to the announcement was bearish. Long gilt yields steepened appreciably and some thought the Bank's usually deft approach to funding was looking a little heavy-handed. Wednesday promises to be a difficult day for potential bidders.

●It seems that the third and last of the Bank of England's experiments with £1bn gilt auctions will take place in mid-January, the 13th or 14th looking the most likely dates.

The second week of January is propitious because of the absence of any significant economic data being released during that week.

The last auction was held on September 23, the day before particularly bad August trade figures were released. The market was extremely nervous, and the auction was covered only 1½ times, compared with 2½ times for the first one. Those who won stock suffered losses.

It is too early to be certain on the Bank's attitude to further auctions but it seems as though they could well have a continuing but small role to play in future funding.

●Institutional holders of 2½ per cent Index-Linked stock maturing in March 1988 appear to have good reason to be annoyed with the Government's decision not to back-date and publish adjusted retail prices indices following Friday's embarrassing revelation that the Department of Employment's data has been incorrect for the past 18 months.

On one estimate of capital loss, the investors who hold the £1bn issue could be £2.6m worse off (£2,600 for every £1m of stock) than they would otherwise had been if the index had been calculated properly.

It would be unreasonable to expect the indices to be corrected for all of the error period – they were re-based and the survey sample widened in January 1987 – but, for reasons of equity alone, there appears no justifiable case not to do it for this year.

Simon Holberton

US MONEY AND CREDIT

Fear of rising interest rates returns to centre stage

THERE IS something touching in the faith that US credit markets continue to place in the US trading economy. Three times already this year – in March, August and October – the credit markets have looked forward to the release of official balance-of-trade figures with the blithest of hopes. Each time, they have been knocked sideways by the reality.

On Thursday, the bond market walked into the biggest punch yet: a $17.6bn deficit in trade in October, the worst ever and about $2bn more than anybody on Wall Street had believed possible. Exports were up a little bit, but imports rose no less than 12.3 per cent. The October stock-market crash has evidently been no more effective than the loss of dollar purchasing power in dulling the appetite of the American public and business for foreign goods.

The figures demoralised the credit markets and sent the dollar tumbling. By Friday, the dollar was trading at Y128.30 and DM1.6305, down 2–3 per cent against each currency. The credit markets, which had been dormant for the first half of the week, raised interest rates in alarm. Despite an injection of reserves from the Federal Reserve, money-market rates rose nearly half a percentage point, while long-maturity bond yields raced up. The Treasury's 30-year bond lost almost four points in price to yield 9.47 per cent.

US credit markets, which once hoped the stock-market crash might herald or cause a recession, have now all but given up hope. Market commentators vie to out-bear one another. "Yields on the long bond seem headed towards 10 per cent," says Mr Philip Braverman of Irving Securities. "Long-term rates could rise at least 100 basis points from current levels," says Mr Mitchell Held of Smith Barney. "Long-term Treasuries will rise to 11 per cent or higher, perhaps as early as the summer," says Mr Henry Kaufman's research establishment at Salomon Bros.

Like the stock market 10 days ago, the bond market is returning to inspect the scene of the crash. On the morning of October 19, long-term interest rates raced up towards 10.5 per cent as the culmination of a desperate attempt in the credit markets to curb the demand which was sucking in imports and tearing the currency apart.

The stock market did its bit by scaring the wits out of many consumers and the dollar has chipped in by falling 10 per cent against the yen. But last week's trade figures appear to show that there is something amiss with the American economy that a weak stock market and a currency devaluation simply cannot cure. A third element – rising interest rates – has come back to centre stage.

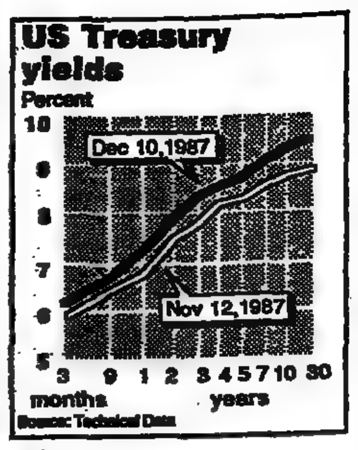
For the first time since the crash, the market is talking of tighter monetary policy.

Since the Treasury had nothing to say about last week's dollar decline, the credit markets have decided that the dollar is now subject to benign neglect from the Administration. Some corners of the bond market are looking warily to the Fed, arguing that the Federal Open Market Committee will this week vote to narrow the supply of money in order to curb demand and stabilise the dollar.

But most economists think this is unlikely. While the strong employment figures 10 days ago alarmed the credit markets, last week brought figures that showed a picture of a weaker economy: November retail sales were up just 0.2 per cent, while producer prices were unchanged in November despite the dollar decline.

As Mr Kaufman said on Friday: "The United States is probably not in a position to tighten monetary policy without some confirmation that economy is on stronger footing and/or that inflation is accelerating. The latest economic news – sluggish retail sales growth and flat producer prices – provide no domestic support for tighter monetary policy." For what they are worth, the monetary aggregates are growing slowly, while MI actually plummeted last week.

Outside the government market, there was one event of great importance to credit: Southland, the hapless Texas convenience store company which is going private in a $4bn leveraged buy-out, raised $1.5bn in junk bonds at the third time of asking. The yields on the four-part package of bonds range from 15¾ per cent on the most senior to a notional 18 per cent on junior discount debentures (which defer interest but include warrants). These are interest rates few businesses would wish to pay, let alone after a stock-market crash. If the deal shows the new issue market for junk bonds has recovered – as junk promoters claim – the market may still have quite a convalescence.



* * *

These are the main economic figures due for release this week, along with the market's forecasts as surveyed on Friday by Money Market Services of Redwood City, California:

●Industrial production for November, due on Tuesday morning. The consensus forecast is for a rise of 0.3 per cent, after a 0.6 per cent increase in October.

●Housing starts in November, due on Wednesday. The consensus estimate is for a rise of 1.51m, the same as October.

●Consumer price index in November, due on Friday. The market expects a rise of 0.3 per cent after an increase of 0.4 per cent in October.

●Personal income and consumption in November, due on Friday. The consensus forecasts are for a decline of 0.1 per cent in personal income, after October's sharp rise of 1.7 per cent, and a rise of 0.4 per cent in consumer spending after a flat October.

James Buchan

US MONEY MARKET RATES (%)

	Last Friday	1 week ago	4 wks ago	12-month High	12-month Low
Fed Funds (weekly average)	6.82	6.92	6.69	11.36	5.98
Three-month Treasury bills	5.87	5.40	5.92	7.17	5.43
Six-month Treasury bills	6.20	6.15	6.00	7.45	5.50
Three-month prime CDs	8.00	7.60	7.20	8.20	5.80
30-day Commercial Paper	8.05	7.50	6.65	7.70	5.75
90-day Commercial Paper	7.75	7.40	6.75	8.65	5.65

US BOND PRICES AND YIELDS (%)

	Last Fri.	Change on wk	Yield	1 week ago	4 wks. ago
Seven-year Treasury	102	-1½	9.00	8.87	8.49
20-year Treasury	100½	-3½	9.57	9.22	9.20
30-year Treasury	96	-3¾	9.47	9.12	8.95
New 10-year A Financial	N/A	N/A	10.30	10.12	9.80
New AA Long utility	N/A	N/A	10.63	10.25	10.13
New AA Long Industrial	N/A	N/A	10.50	10.25	10.00

Source: Salomon Bros (estimates).

Money supply: In the week ended November 30, M1 fell by [illegible] to [illegible].

NRI TOKYO BOND INDEX

December 1983 = 100	10/12/87	Average yield (%)	Last week	12 wks ago	26 wks ago
		PERFORMANCE INDEX			
Overall	138.76	4.80	138.82	138.73	140.77
Government Bonds	131.39	4.47	131.62	133.40	143.60
Municipal Bonds	139.77	5.25	139.50	133.14	140.20
Govt.-guaranteed Bonds	140.79	5.29	140.50	134.00	141.13
Bank debentures	134.02	4.60	134.00	132.96	133.20
Corporate Bonds	138.62	5.71	137.54	134.58	138.14
Yen-denom. Foreign Bonds	139.12	5.45	138.85	138.52	139.86
Government 10-year†	5.26		5.12	5.18	4.80

† Estimated par yield

Source: Nomura Research Institute

Turnover tax move by Stockholm SE

BY SARA WEBB IN STOCKHOLM

FOREIGNERS WHO invest in Swedish shares on the Stockholm exchange should be given exemption from the Swedish turnover tax, according to a proposal from the Stock Exchange board.

The proposal reflects growing concern over the exodus of foreign investors from the Stockholm market ever since the turnover tax was doubled in July 1986.

As a result of the increase, transaction costs are now between three and five times higher in Stockholm than in London and New York, where many of the major Swedish shares are listed.

The Finance Ministry has been circulating its latest proposals concerning the introduction of a tax on money market instruments for comments from various financial bodies before the bill is presented in parliament.

The Stock Exchange board has proposed introducing an amendment to the bill to exempt foreigners from the share turnover tax on the grounds that Stockholm is no longer the most important market for the main Swedish shares.

Estimates about the degree to which trading has moved overseas suggest that, before the recent crash, 85 per cent of the so-called free shares in Electrolux, Pharmacia, Asea, Volvo and Ericsson are now traded abroad.

The exemption would not have a significant effect on government revenue, the exchange believes, as about SKr250m is collected from foreigners in turnover tax, compared with SKr3bn from domestic investors in Swedish shares.

If the Government accepts the exchange's proposal, it could be passed next spring and would take effect from July 1 1988.

FT/AIBD INTERNATIONAL BOND SERVICE

U.S. DOLLAR STRAIGHTS	Issued	Bid	Chg on week	Yield
ABN BANK 8¾ 93	150	97⅞	+¼	9.39
AETNA LIFE & CAS 7⅝ 96	200	95⅞	-1¼	8.61
AHPC DIS.FIN. 11¾ 90	100	99⅞	-¼	12.12
A.I.D.C. 11 89	75	102⅞	-¼	9.46
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

	Issued	Bid	Chg on week	Yield
QANTAS AIRWAYS 8¾ 96	47	93⅞	-1¼	10.39
QUEBEC PROV 13 93	150	107⅞	-¼	10.01
QUEENSLAND GVT. 11¼ 89	100	104	-¼	9.11
RALSTON PURINA 11¾ 92	150	100⅞	-¼	10.83
REYNOLDS R.J. 10⅝ 95	100	101⅞	-¼	9.78
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

	Issued	Bid	Chg on week	Yield
NIPPON SEIKO 5¼ 93	70	162¾	-7¾	-9.81
ROCKEFELLER CENTER 0 00	952	23⅞	-¼	-72.39
SOUTHWEST AIRLINES 6¾ 98	35	73⅞	+¼	140.72
SWISS BANK CORP 6¾ 90	180	120	-1¼	-11.79
TEXACO CAPITAL 11¾ 94	500	100⅞	+1¼	37.02
TOSHIBA CERAMICS 3 00	50	144¾	0	0.18
XEROX CORPN 5 88	75	93⅞	+¼	162.77
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

[illegible]

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Pennzoil may settle for $3bn

BY JAMES BUCHAN IN NEW YORK

PENNZOIL, the Houston-based oil company awarded $10.3bn in damages against Texaco, is expected to file suit this week with an offer to settle the long-running legal dispute for an immediate $3bn in cash.

The offer, which has the support of several big Texaco stockholders, is Pennzoil's best yet in a month of feverish effort to solve the bitter four-year dispute. Pennzoil said on Friday that it was seeking the backing of Texaco's other creditors to by-pass management and present its offer directly to the court administering the oil giant's bankruptcy.

Shares in both companies surged by nearly 10 per cent on Friday, amid hopes on Wall Street that Texaco's management, which is now at loggerheads with the nominal owners of the company, is coming under intolerable pressure to settle rather than continue its legal fight to the US Supreme Court.

Texaco said at the weekend it would still file for a Supreme Court review of the judgement, which was granted by the Texas courts on the grounds that Texaco interfered with a Pennzoil contract to buy part of Getty Oil in 1984. The suburban New York oil group criticised the committee representing big stockholders in the proceedings for interfering in company negotiations which might have produced "a more economic" settlement.

But Texaco could now lose control of the bankruptcy process, which it sought last April to escape enforcement of the $10.3bn damages judgement.

The judge in the bankruptcy case has ruled that only Texaco can file a reorganisation plan before January 11 – unless Pennzoil, a two-thirds majority of Texaco stockholders, and the company's other creditors can agree. Pennzoil said on Friday that it was confident the "the creditor committee would give the plan very serious consideration."

Pennzoil's improved offer, which is $1bn lower than the settlement price it named earlier this year, is a notable coup for Mr Carl Icahn, the takeover specialist who has invested more than $500m in both companies and is pushing hard for a settlement. Mr Icahn, who controls 12.3 per cent of Texaco and a block of Pennzoil stock, apparently persuaded Pennzoil to lower its demands enough to convince stockholders that the pay-out would still leave some value to their stakes.

Texaco had offered to settle for $1bn down in return for a ceiling of $3.5bn on its ultimate liability after a Supreme Court judgement. The company continued to defend the offer at the weekend, adding: "Texaco believes that a more economic single number settlement could have been achieved with Pennzoil if the Equity Committee had not acted unilaterally."

Texaco stock rose $3½ to $35½ on Friday, while Pennzoil jumped $6¾ to $79¾.

MBB forecasts return to the black this year

BY OUR FINANCIAL STAFF

Messerschmitt-Boelkow-Blohm, the West German aerospace group, expects to return to profit in 1987 after running up a group net loss of DM104m last year, the company said.

MBB said business in the space division and in such smaller departments as medical technology, solar energy and machinery had been better than expected, overturning previous MBB forecasts of a 1987 loss.

The company said group turnover should rise to DM6.2bn this year, from DM5.63bn in 1986. It was expected to increase to almost DM10bn by 1992.

MBB has been divided into profit centres since October, and is making efforts to reduce costs.

The company said MBB's supervisory board, which met on Thursday, had appointed Mr Karl-Friedrich Triebold to succeed Mr Sepp Hort as deputy to managing board chairman Mr Hanns Arnt Vogels around next March.

Mr Triebold, who will be responsible for the space division, is chairman of Krupp Atlas Elektronik, a wholly owned subsidiary of the Krupp steel group.

Trading in HK comic book group to resume

BY OUR FINANCIAL STAFF

TRADING IN Jademan (Holdings) shares and warrants is expected to resume today, after being suspended from December 4 after the company announced huge losses in stock investments.

Jademan said it is planning to reduce its share premium account to offset the deficit in profit and loss account incurred by a HK$105m loss and a further HK$104m provision for declined value of stocks in hand.

Jademan, a comic book publisher, reported earlier this month an after-tax profit from operations of HK$38.3m for the six months to September, against HK$17.5m a year ago, but it passed an interim dividend because of losses in securities investments.

The stock was suspended for 10 days as the Securities Commissioner's Office studied the company's accounts at the request of small shareholders. The company said both the Commissioner and the Stock Exchange have expressed no objection to the resumption of trading. Jademan shares last traded at 83 cents on December 4.

Alco Standard in Triumph spin-off plan

BY OUR FINANCIAL STAFF

ALCO STANDARD says it may spin off to shareholders its Triumph group of aerospace companies, as part of its plan to focus on its core businesses of paper distribution, office products and food services.

"During fiscal 1988 (ending September 30), we will study the possibility of spinning off this (aerospace) group to our shareholders," Mr Ray Mundt, the company's chairman said, adding that the spin-off would be likely to occur after the end of fiscal 1988.

Alco Standard said it agreed with analysts' forecasts that its profit for fiscal 1988 would rise to between $1.95 and $2.25 a share, diluted from last year's $1.68 a share.

Mr Mundt said Alco's profit for the first quarter, ending on December 31, would also exceed last year's first-quarter profit of 34 cents a share.

Alco's aerospace companies posted fiscal 1987 operating profits of $14.9m, on sales of $118.3m.

Mr Mundt said the aerospace companies are healthy and generate positive cash flow, but are too cyclical for the company's strategy.

Last July, Alco said it would divest most of its distribution services businesses, which did not fit its long-term growth strategy.

Alco has set sales agreements for all these companies except a glassware company and Metal-Source's steel distribution unit.

Mr Mundt said Alco would complete the rest of the sales by the first half of fiscal 1988 and receive in total "substantially more" than the divested companies' $125m of book value, which would be used for further acquisitions of companies related to Alco's core businesses.

Alco plans 10 to 12 acquisitions this year for its office products division, which Mr Mundt says is the fastest-growing part of the company.

Mr Mundt also said that operating earnings for office products would rise by more than 10 per cent this year from last year's $16.1m, due to new acquisitions and a strong market.

Operating earnings in paper distribution should rise between 10 and 15 per cent this year from last year's $83.8m. Mr Mundt cited recent acquisitions, the strong paper market and planned price increases.

"We are projecting that paper in 1989 will earn more than $100m in operating profits," he stated.

Alco's paper unit, Paper Corp of America, is the largest US independent wholesale paper distributor.

In fiscal 1987, it accounted for $2.35bn of Alco's total revenues of $3.63bn.

Mr Mundt said the performance of the food services unit should improve, following an 11 per cent fall in operating earnings last year, to $29.4m. He said this unit's earnings should grow by 5 to 6 per cent this year, due to a management reorganisation and productivity gains.

Vallourec to take full control of Anpab

By George Graham in Paris

VALLOUREC, the French steel tubes producer, is to take full control of the Swedish company Avesta Nyby Powders (Anpab), the leading producer of gas-atomised stainless steel and high alloy metal powders.

The loss-making French group already owned 40 per cent of Anpab, in partnership with the Swedish steel group Avesta, but has recently reinforced its technical co-operation with the Swedish company. The company is to be rechristened Anval Nyby Powder.

The two companies developed jointly the patented Anval process for making special seamless tubes from metal powder, which earlier this year they licensed to Sumitomo and Sanyo of Japan.

Anpab's powders are also used for corrosion or abrasion resistant coatings and for the manufacture of metal parts by compacting at high temperatures.

Vallourec, which lost FFr402m ($72.7m) in 1986 and FFr447m in the first half of 1987, has been badly hit by the fall in oil prices and the resultant downturn in its main market, the production of seamless tube for oil and gas drilling and exploration.

But the group recently agreed a four-year financial restructuring plan with FFr500m of fresh capital, delays on the repayment of its medium and long-term debts, and the entry of senior management into its capital.

Vallourec, whose main shareholder is the French state-owned steel group Usinor, said that the takeover of Anpab fitted into its strategy of research and innovation in high-technology sectors.

- Three subsidiaries of state bank Cie Financiere de Credit Industriel et Commercial (CIC) will be partly sold off to the public once market conditions permit, according to the Finance Ministry, Reuter reports from Paris.

The three subsidiaries are Societe Lyonnaise de Banque, Credit Industriel d'Alsace and Credit Industriel de l'Ouest.

NEW INTERNATIONAL BOND ISSUES

Borrowers	Amount m.	Maturity	Av. life years	Coupon %	Price	Book runner	Offer yield %
US DOLLARS							
Wings 3 Ltd. (a)‡♦	37.4	1992	5	20bp	100.10	Mitsui Fin. Int.	-
New Zealand (c)♦	250	1992	5	9¼	99⅝	Morgan Stanley	9.564
Sanwa Int. Fin.(d)‡♦	100	1993	5	10bp	100.10	Sanwa Int.	-
CANADIAN DOLLARS							
Fed.Business Dev.Bank♦	75	1991	3	10¼	101	McLeod Young Weir	9.849
D-MARKS							
IKB Int. Luxembourg♦	75	1995	7	6	100¼	Industriekreditbank	5.955
Swedish Export Cr.(f)♦	300	1993	5	5⅜	100⅜	Morgan Stanley	5.288
Mount Isa Finance♦	200	1994	6	6	100	Commerzbank	6.000
Ind. Credit Corp.**♦	50	1991	3	5	100	Bk of Tokyo (D'land)	5.000
SWISS FRANCS							
Victorian P.Auth.Fin.Ag.♦	118	2003	-	5⅜	101	UBS	5.277
Skand.Enskilda B'ken♦	100	1994	-	4½	100	Credit Suisse	4.500
Nippon Suisan Kaisha♦	80	1993	-	4⅝	100	Credit Suisse	4.625
FRENCH FRANCS							
World Bank♦	1bn	1998	10	10	100	BNP	10.000
DANISH KRONER							
East Asiatic Co.♦	250	1991	3.66	11	100¼	Privatbanken	10.870
LUXEMBOURG FRANCS							
EIB**♦	300	1993	6	7⅜	100	Sogenal	7.375
Mitsui Tst Bk (Europe)**♦	300	1993	5	7¾	100¼	BIL	7.688
Banque Indosuez**♦	300	1993	5	7⅜	99⅞	Banque Indosuez	7.406
Provinsbanken**♦	300	1992	5	7¾	100¼	Bqe Paribas (Lux)	7.688
ECUs							
Fuji Bank(Lux.)(e)‡♦	60	1992	5	-45	100.15	Fuji Bank Int.	-
YEN							
IMI Bank Int.	15bn	1992	4	5	101.35	IBJ Int.	4.623
Cariplo (b) ‡♦	10bn	1993	5	-55	100¼	Taiyo Kobe Int.	-

*Not yet priced. **Private placement. ♦Final terms. ‡Floating rate note. (a)20bp over 6m Libor. (b)55bp under Japanese long-term prime rate. (c) Launched on US domestic market. (d)10bp over 6m Libor. (e)45bp under 3m Libor first year, 32½bp under 3m Libor remainder. (f)Issued separately 1.5m currency warrants to purchase US$100 at DM1.6725 at DM12.15 per warrant. Exercise period 15.1.88 - 7.12.89. Note: Yields are calculated on AIBD basis.

DIARY DATES

Trade Fairs and Exhibitions: UK

December 18-19
Cash and Carry Fashion Fair (01-727 1929)
Kensington Town Hall

January 6-17
London International Boat Show (0932-854511)
Earls Court

January 7-10
Holiday and Travel Fair (021-780 4171)
NEC,Birmingham

January 9-14
International Toy Fair (01-226 6653)
Harrogate

January 10-14
International Lightshow Exhibition (05884 658)
Olympia

January 17
Antiques and Collectors Fair (01-883 7061)
Alexandra Palace

January 19-22
Which? Computer Show (01-891 5051)
NEC,Birmingham

January 22-24
Holiday Exhibition (0895 58431)
Alexandra Palace

January 26-28
Hirex Exhibition (01- 660 8008)
Wembley Conference Centre

January 30-February 3
British International Toy and Hobby Fair (01-701 7127)
Earls Court

February 2-3
Electronics Industry Show (0273 675131) - ELECTRO WEST
Bristol Exhibition Centre

February 2-4
London International Safety and Health Exhibition (01 446 8211)
Novotel

February 7-11
International Spring Fair - Hardware and Housewares Show (0604 22023)
NEC, Birminham

Overseas Exhibitions

Current
Optics and Glass Exhibition (01-439 4452) (until December 15)
Beijing

Current
Heating, Refrigerating and Air conditioning Exhibition- INTERCLIMA (01- 225 5566) (until December 15)
Paris

January 10-13
Middle Eas Electricity Exhibition (01-935 8537)
Dubai

January 13-16
International Home and Household Textiles (01-734 0543)
Frankfurt

January 13-19
Hong Kong Toy Show (01-930 7955)
Hong Kong

January 14-18
International Supplies and Materials for the Furniture Industry - APPROFAL - and Take-away Goods for the Home Exhibitions - INTERKIT (01-225 5566)
Paris

January 22-29
Bahrain Fair (01-486 1951
Bahrain

January 22-24
International Clothing and Foootwear Exhibition - CYPROMODE (01-734 4791)
Nicosia

January 29- February 7
International Green Week (01-930 7251)
Berlin

Business and Management Conferences

December 16
CBI Conferences/ *Leicester* University: Fire safety - a teach-in on part 1 of the Fire Safety and Safety of places of sport act (01-379 7400)
Centre Point, London

January 8
Lea, Storey & Co: Total quality management and the customer (0272 211964)
Redwood Lodge Hotel,Bristol

January 13
International Business Communications: Implementing a stategy to prevent computer fraud in retail electronic banking (01-236 4080)
Cafe Royal, London W1

January 13
Manchester Business School:"Business and economics in a smaller world" with Professor J. Kenneth Galbraith.
Manchester

January 15
HS Conference Studies: Winning planning appeals (01-437 9090)
Cafe Royal, London W1

January 19
Management Forum: Expert systems in business and the professions (0483 570099)
Cafe Royal,London W1

January 19-20
Crown Eagle Communications: Successfully acquiring unquoted companies (01-242 4111)
London

January 19-20
Institute for International Research: Creating, Implementing and projecting an effective corporate identity (01-434 0301)
Park Lane Hotel,London W1

January 20
Legal Studies and Services: Share schemes for executives and employees - the new law practice and strategy (01-236 4080)
Royal Lancaster Hotel,London W2

January 21
Institute of Personnel Management: Preparing to win at an industrial tribunal (01-946 9100)
Rembrandt Hotel, London

January 25-26
Financial Times Conferences; Civil aviation in the Pacific basin: the pattern of the future (01-925 2323)
Shangri-La Hotel, Singapore

January 26
EMAP Conferences: Corporate pensions - countdown to change - the definitive guide to the new legislation and regulations (01-404 4844)
Cavendish Conference Centre, London W1

January 27
The Association of Corporate Treasurers: Commercial paper - the opportunities (01-631 1991)
Cafe Royal, London W1

February 4
Spectra Retail Concepts: Looking forward at PC based instore systems (0734 794161)
Cafe Royal, London W1

February 9-10
Frost & Sullivan: Fibre optics in communications systems (01-730 3438)
Portman Hotel, London W1

February 11,12,15
Financial Times City seminar (01-925 2323)
Plaisterers Hall, London EC2

Anyone wishing to attend any of the above events is advised to telephone the organisers to ensure that there have been no changes in the details published

FINANCIAL

TODAY
COMPANY MEETINGS-
A.C. Holdings, Connaught Rooms, Great Queen Street, W.C., 2.30
...
Scottish National Trust, Albany Hotel, Bothwell Street, Glasgow, 12.00
Smiths Inds., 765, Finchley Road, N.W., 12.00
BOARD MEETINGS-
Finals;
Bett Brothers
Devenish (J.A.)
Electronic Data Processing
Guinness Peat
Johnson & Firth Brown

PARLIAMENT

TODAY

Commons: Private Members Motions.Progress on remaining stages of Local Government Bill.

Lords: Merchant Shipping Bill, report stage. Copyright Designs and Patents Bill Committee-And orders on Mink keeping and the medicines (exemptions from licences) regulations.

Select Committees: Public Accounts–subject: British Gas and British Airways privatisation. Witnesses: Mr P. L. Gregson, permanent under-secretary Department of Energy and Sir Alan Bailey, permanent secretary Department of Transport (Room 16, 4.45pm.)

TOMORROW

Commons: completion of remaining stages of Local Government Bill. Motions on Welsh rate support grant orders.

Lords: Legal Aid Bill Second Reading. Motions for approval on air navigation. National Meteorological Co-ordinating Unit Regulations. Third Reading of Swanage Yacht Haven Bill.

WEDNESDAY

Commons: Local Government Finance Bill Second Reading. Motion relating to appointment of John Bryant Bourne as Comptroller and Auditor General.

Lords: Committee stage of Land Registration Bill. Second reading of Landlord and Tenant Bill and third reading of Sunday Sports Bill.

Select Committees: Employment, subject to be announced (Room 15, 4.15pm). Public Accounts, subject: Manpower element of Technical co-operation: Witness Mr J.Caines (permanent secretary Overseas Development Association) Room 16, 4.15pm. Joint Committee Private Bill Procedure: Witness, Lord Prior.

THURSDAY

Commons: completion of Second Reading of Local Government Finance Bill.

Lords: Scottish Development Agency Remaining stages. Urban Development Corporations (Financial Limits Bill Second Reading). Motion for approval on Farm Diversification Grant Scheme, and report stage of Farm Land and Rural Development Bill. Copyright designs and Patents Bill Committee.

FRIDAY

Commons: Adjournment motions.

FINANCIAL TIMES CONFERENCES
CIVIL AVIATION IN THE PACIFIC BASIN

Singapore, 15 & 26 January 1988

The Pacific Basin, civil aviation's fastest growing air transport arena, is the subject of the Financial Times conference to be held in Singapore on 25 and 26 January 1988. Under the chairmanship of Sir Colin Marshall, Chief Executive, British Airways the opening forum will assess the growth in the region and how to meet it with contribution from Dr Cheong Choong Kong, Managing Director, Singapore Airlines, Mr Michael Miles, Chairman, Cathay Pacific Airways and Mr Mitsunari Kawano, Senior Managing Director, Japan Air Lines.

Meeting the airlines future requirements for money will involve the international banking and financial institutions. Will they cope? What will be the problem? These questions will be debated by Mr Frederick Bradley, Jr, Senior Vice President, Citibank NA, Mr Colin Hood, Senior International Executive, National Westminster Bank, Mr Michael Jones, Director of the Aviation Unit; Hongkong Bank Group and Mr Michihiro Sekiya, Director, Mitsubishi Trust Bank. Developments in aircraft leasing will be reviewed by Mr Sean Donlon, Executive Vice President, GPA Group and Mr Morten Beyer, President of AVMARK will speak on the used aircraft market.

THE EUROPEAN FOOD AND DRINK INDUSTRY CONFERENCE

London, 8 & 9 February 1988

The *first centenary year FT conference* is to be European Food and Drink to be held on 8 & 9 February, 1988 at the London Inter. Continental Hotel. A broad range of subjects is to be covered including business strategy, consumer trends, new markets, the manufacturing/retailing interface, marketing and the impact of the quite major changes which will follow from a solution to the crises of the Common Agricultural Policy. Among the distinguished speakers who are contributing to this conference, the first FT event on the subject for over 10 years, are Mr Michael Caine of Booker PLC, Mr Charles Gebbard of Jacobs Suchard, Mr Dennis Urquhart of Bass PLC, M. Alain Chevalier of Moet Hennessy Louis Vuitton, Mr Paul Simons of Gold Greenless Trott, Count Alberto Marone Cinzano of Cinzano International Sa, Mr Greville Cater of Barclays de Zoete Wedd Research Limited, Mr Ralph Cooper of Coca-Cola Northern Europe, Professor David Stout of Unilever PLC and Mr Walter Goldsmith of Food From Britain.

All enquiries should be addressed to: The Financial Times Conference Organisation, 2nd Floor, 126 Jermyn Street, London SW1Y 4UJ. Tel: 01-925 2323 (24-hour answering service) Telex: 27347 FT CONF G Fax: 01-925 2125

BUILDING

Landscaping ash disposal works

TAYLOR WOODROW CONSTRUCTION (NORTHERN), Darlington, has been awarded a further contract, worth about £4.5m, by the Central Electricity Generating Board to extend its work on the Gale Common ash disposal works, near Whitley Bridge, West Yorkshire. The company has been working at the site since 1984 and the new phase will extend the work until September 1989.

Gale Common caters for the disposal of pulverised fuel ash (pfa) from the nearby 2,000 MW power stations at Eggborough and Ferrybridge and shale from Kellingley Colliery.

The ash is pumped in slurry form from the power stations to the Gale Common site, at the average rate of 22,000 tonnes per week. Following a conditioning process the pfa is transported to the lagoons and compacted in layers to form the embankments. Shale is delivered at the average rate of 19,000 tonnes a week and is also used in the construction of embankments.

The man-made slopes are landscaped by contouring and the surface top-soiled and seeded. The slopes are variously planted with trees and shrubs while others are fenced to form stock grazing areas, the first flock of sheep being introduced on to the site in April 1987. The total materials disposed of to date are some 11.6m tonnes of shale, 11.6m tonnes of wet pfa, and 10m tonnes of conditioned pfa. Works include drainage, pipework and the maintenance of site roads.

TAYMECH has been awarded a £4.5m contract to provide the main mechanical and electrical installation for The St Enoch Centre, Glasgow, which is being developed by the Church Commissioneers for England and Sears Property Glasgow and is due for completion in March 1989.

This retail shopping complex with a gross floor area of 76,000 sq metres comprises a basement service area, ice rink, food court, special events area, management offices, integral 750 space multi-storey car park, and extensions to a Lewis's department store.

The major part of the development is covered by a glass envelope of patent glazing on triangulated steel trusses which will make St Enoch one of the largest single overglazed buildings of its type in Europe.

To complement this glazing and take full advantage of the building's features, Taymech will be installing one of the most impressive lighting systems in Glasgow.

The project also faces a particularly unusual air-conditioning problem with an ice skating rink being included in the open plan design of the mall area. Taymech has to ensure that the air volumes above the ice rink assist in maintaining ice conditions, while supporting comfortable space conditions within the mall.

Taymech, the Taylor Woodrow Group's specialist mechanical and electrical engineering company, will be working for Sir Robert McAlpine Management Contractors.

Offices at Borehamwood

HUNTING GATE CONSTRUCTION is to design and build a £5.1m project in Elstree Way, Borehamwood, which will be known as Silverscreens. The joint development between Hunting Gate Developments and Allied Dunbar Property Fund will be ready for occupation by September 1988.

Hunting Gate's design for the scheme provides two, three- storey *office blocks, producing* about 54,000 sq ft of floor space. The building will be finished to a high internal specification with a reception area incorporating hardwood panelling and polished black granite. Offices throughout both buildings will have raised access floors, fan-cooled air conditioning systems and two lifts.

One of the design features of both buildings is central atria which will provide increased natural light. The atria will be *planted, with additional greenery* on first and second floor galleries. The composite steel frame superstructure will be enclosed by a reflective glazed curtain walling system. To give a degree of individuality one building will be silver and the other will be finished in bronze.

Additional features include car parking for nearly 200 vehicles and provision for fitting a staff refectory on the top floor of one of the buildings.

Fitting out at station

DIESPEKER CONCRETE CO, a member of the Higgs and Hill Group, has been awarded a £980,000 contract by Bovis Construction to provide fitting out works at Liverpool Street Station which will ceate a new taxi marshalling area and suspended bus deck. The contract requires the installation of an extensive underground ventilation system including a 30 metre high ventilation tower, ventilation ducts, plant rooms, a 30 metre long walk-through service duct and concrete basement slabs.

Upgrading main port of Ghana

CEMENTATION INTERNATIONAL, overseas building and civil engineering arm of Trafalgar House, has been awarded a contract worth nearly £5m at Tema, Ghana's principal port, by the Ghana Ports and Harbours Authority. Tema is some 40 kms east of the capital Accra and handles a largee proportion of the country's imports and exports.

The Port of Tema was constructed between the years of 1954 and 1964. The need for more sophisticated loading and unloading systems has led to two contracts being awarded at the port with Cementation International winning Tema contract II, financed by the International Development Association.

The Tema contract encompasses rehabilitation works, and improvements to the electrical systems layout, warehouses and lighting. In total nearly 69,000 sq metres of buildings will be comprehensively renovated and modernised. The buildings include cocoa sheds, warehouses and transit sheds. The Keta lighthouse will also be repaired and new mechanical and electrical systems installed. Work will take 36 months and will be phased to minimise interference to the port facilities and their operations.

★

TECTONIC ARCHITECTURAL SYSTEMS, part of the Briggs Amasco curtain wall division and a member of the Tarmac Group, has been awarded a £1.5m contract for patent glazing on phase 5 of the Richardson Group's shopping complex development at Merry Hill, near Dudley, in the West Midlands.

Part of the largest development in the West Midlands since the building of the National Exhibition Centre in 1975, phase 5 of the development will use around 11,500 sq metres of a "custom" made patent glazing system, which incorporates unbroken runs of glazing bars up to 15 metres in length.

Company Notices

EAST RAND PROPRIETARY MINES, LIMITED
RAND MINES

RIGHTS OFFER

Following the DIVIDEND DECLARATION by the Company on 8 October 1987 NOTICE is now given that the following DISTRIBUTION will become payable on or after 14 December 1987.

Gross Distribution per Unit	5.00 cents
Less 15% USA Withholding Tax	0.75 cents
	4.25 cents
Converted at $1.8225	£0.023319616

Claims should be lodged with the DEPOSITARY; National Westminster Bank PLC, Stock Office Services, Third Floor, 20 Old Broad Street, London EC2, on special forms obtainable from that Office.

United Kingdom Banks and Members of the Stock Exchange should mark payment of the dividend in the appropriate square on the reverse of the certificate.

All other claimants must complete the special form and present this at the above address together with the certificate(s) for marking by the National Westminster Bank PLC. Postal applications cannot be accepted.

DATE: 7 DECEMBER 1987

SOCIETE GENERALE

SECOND NOTICE

THE BOARD OF DIRECTORS

INTERMARKET FUND I

Contracts & Tenders

WANDSWORTH BOROUGH COUNCIL
Installation of central heating at Alton East Estate, Norley Vale, London. SW15

Contractors wishing to be considered for selection to tender for the installation of individual gas fired boilers serving radiators and domestic hot water supply to approximately 200 dwellings situated in five 10-storey blocks of flats at Alton East Estate, Norley Vale, SW15 should submit names to the Chief Executive and Director of Administration, Room 111, Town Hall, Wandsworth High Street, London, SW18 2PU by 15th January 1988, quoting reference BAS/3380.

Applicants must submit details of labour, technical and supervisory staff available, together with the names and addresses of two technical and two financial referees unless this information has already been provided for a similar contract within the least 12 months.

(N.B. Applicants *should* refer only to the *above-mentioned scheme* and must not incorporate replies to other advertisements placed by Wandsworth Borough Council. Late applications will not be considered).

It is anticipated that tenders will be invited from selected contractors against prepared specifications and drawings in March 1988 for the work to commence on site in June 1988 with an intended completion date of February 1989.

The engineering design service for this scheme will be provided by M C Lee Dip. Arch (hons) ARIBA, Borough Architect, Town Hall, Wandsworth High Street, London, SW18 2PU

G.K Jones, Chief Executive and Director of Administration

UK COMPANY NEWS

Guinness sets up gas supplier sale

Guinness, the drinks group which has fast been disposing of its peripheral interests, is expected to announce another sale this week - that of Distillers Carbon Dioxide which supplies gas to breweries and public houses.

The buyer will be the German-based Hoechst Group, which last week sold its Berger paints business to Williams Holdings, the industrial mini-conglomerate. A Hoechst subsidiary, Messer Griesheim, is one of the world's largest gas companies.

The deal will represent the last of Guinness's strategic disposals which followed a decision taken earlier this year by Mr Anthony Tennant, the new chief executive, to concentrate on the group's core drinks businesses.

So far the disposals have raised £340m for the group, with the largest single sale being that of Martins the Newsagent which was sold to a consortium for £202m. Other businesses sold include Drummonds Pharmacy, the chemists group; Clares Equipment, a supermarket display and merchandising supplier; the 7-Eleven convenience store chain; Nature's Best, a health supplements business; and last month, Richter Brothers, a US speciality foods importer.

Speyhawk profits rise by 65% to over £10m

A 65 per cent rise from £6.1m to £10.06m in pre-tax profits of **Speyhawk**, the property development and construction group, for the year ended September 30 met with market approval. Earlier estimates had been for a profit of around £9m. The 10p ordinary closed 5p up at 258p.

Turnover last year was up from £40.94m to £67.82; taxation was £3.87m against £1.95m and after minorities of £154,000 (£249,000) earnings per share emerged at 28p (23.4p) undiluted and 27.5p (23p) fully diluted.

The dividend is raised 1p to 11p with a final of 8.48p (7.48p).

Some seven schemes contributed to the increased profits in 1986/87 and nine are likely to contribute in the current year. In October the group raised a £48m funding facility for its Thames Valley Park project which, when completed, will offer more than 1.5m sq ft of space including some retail space and a 200 bedroom luxury hotel.

Another prestigious project to contribute to future growth will be Cannon Steet Station where a scheme for 275,000 sq ft of offices is being devised in conjunction with British Rail.

Radio Clyde near £1m

Radio Clyde's pre-tax profit rose 72 per cent from £632,000 to £916,000 in the year to September 30 on turnover which improved 18 per cent to £5.26m.

Earnings per share advanced 79 per cent from 5.7p to 10.2p. The total dividend goes up from 3.5p to 4.25p with a proposed final of 2.75p per share. The shares are quoted on the USM.

Tax amounted to £326,000 (£204,000).

The directors said that the healthy increase in turnover reflected a strengthening of advertising revenue which rose by 18 per cent. They added that costs continued to be controlled carefully.

Additionally, the recently-announced change in the calculation of secondary rental from October 1 1986 had resulted in the marginal rate on broadcast profits falling from 45 to 20 per cent. The liability to secondary rental for 1986/87 was £120,000 compared with £126,000 for 1985/86, despite the substantial increase in profits.

Since the end of the financial year, advertising revenue for October and November exceeded that for the corresponding period of last year by 16 per cent.

Benlox attacks Storehouse record

Benlox, the civil engineering and investment dealing company, will today send a circular to shareholders in Storehouse, the retailing conglomerate, fiercely attacking the company's record under the chairmanship of Sir Terence Conran.

Benlox is seeking to split Storehouse into six separate companies, each of which will be listed on the Stock Exchange. The circular is expected to assure Storehouse shareholders that at no point will any of the demerged companies be left unlisted.

The circular is also expected to draw attention to what Benlox perceives as the "failures" of Storehouse management, particularly its conduct during the negotiations with Mountleigh, the property group which made a £1.8bn takeover approach this September.

Alexander Russell down as expected

As forewarned in the chairman's annual report, Alexander Russell saw interim pre-tax profits fall from £1.71m to £1.05m.

However, the directors said that the second half had started well and, unless there was an exceptionally severe winter, results for the full year should be good.

Turnover in the six months to the end of September 1987 for this building supplies, quarrying and coal recovery group rose to £19.38m (£16.91m). Earnings per 10p share came out at 2.28p (4.32p) and the interim dividend is unchanged at 0.54p.

Tax charge amounted to £270,000 (£537,000).

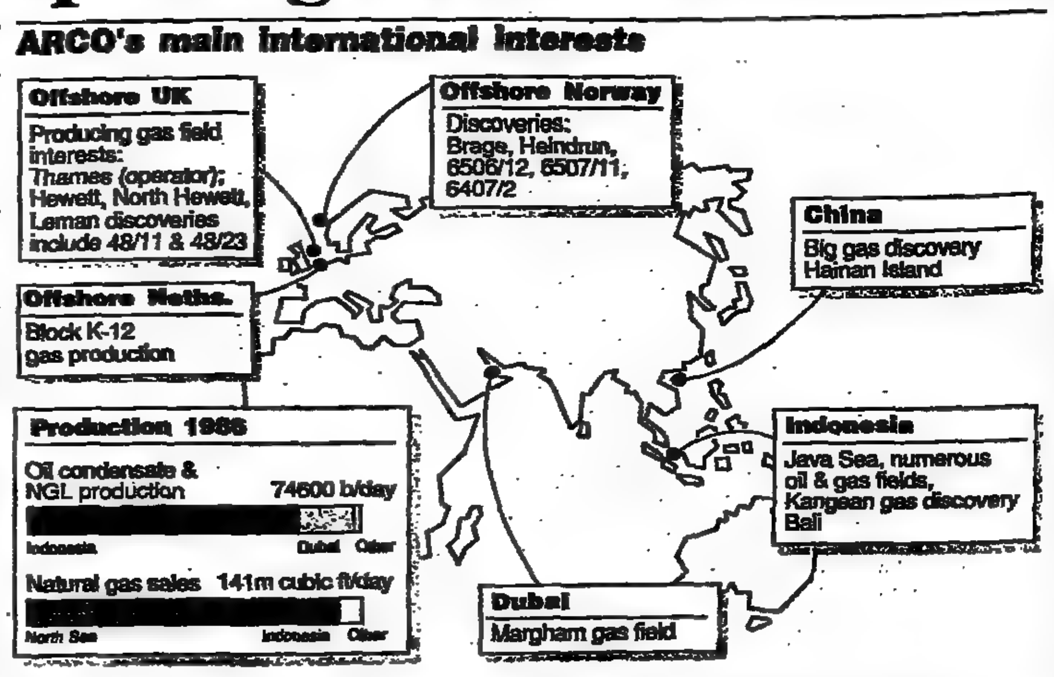
FT Share Service

The following securities have been added to the Share Information Service.

Atlantic Assets Trust Warrants (Section: Investment Trusts).
Biomechanics International (Industrials).
Chartsearch (Paper).
Company of Designers (Industrials).
EFM Dragon Trust (Investment Trusts).
Haden MacLellan (Engineering).
Independent Investment Co.Warrants (Investment Trusts).
Kemp (P.E.) (Third Market).
Marcol Group (Electricals).
Mayne Nickless (Industrials).
Moorgate Investment Trust Warrants (Investment Trust).
Norish (Foods).
Power Corporation (Property).
Southend Stadium 5½% Pref shares (Property).
Stanhope Properties (Property).
Tabular Exhibition Group (Industrials).
WSP Holdings (Industrials).
Wilshaw Securities (Industrials).

Max Wilkinson looks at the continuing two-way battle for Britoil

Prospecting for future oil reserves



Atlantic Richfield, one of the most American of the big US oil companies, seems at first sight a most unlikely protector for a former arm of the British Government, now privatised as Britoil.

This week the battle will continue between Arco and British Petroleum, both of which have said they want to buy 29.9 per cent of Britoil. On Friday Arco looked as if it might have trumped BP's first price of 300p per share with an offer of 350p and a proposed exchange of assets which would have given it 49.9 per cent of the company.

But late on Friday night BP announced that it would increase its offer by an unspecified amount when its outstanding tender offer expires on Tuesday. Since BP and Arco are each operators for half of the giant Prudhoe Bay oilfield in Alaska, they both have deep enough pockets to keep the contest going if they want.

For BP the logic is fairly obvious: Britoil's large reserves and extensive exploration licences in the North Sea would greatly strengthen BP's already strong position in UK waters. So, although BP has not yet revealed its longer term intentions, it is clear that it would like to proceed to a full scale bid, provided it could be sure the Government would not block the move by the use of its "golden share" in the company. This share, implanted when the old British National Oil Corporation was privatised in 1982, gives the Government a veto against any takeover.

It is less clear what Arco is after. No doubt an offer to save the UK's largest independent oil company from the clutches of BP is less eccentric than its move 11 years ago to rescue the Observer newspaper from collapse.

But then the company and the oil markets have moved a long way since the late 1970's when a touch of philanthropy or daring could still make an acquisition look desirable in the boardrooms of the big oil companies.

Since then the collapse of oil prices and severe cuts to staff and exploration budgets have forced all oil companies to take a much more careful view of potential acquisitions as well as of their own operations.

For Arco, the last two years have been a period of tough retrenchment and consolidation. It cut its workforce by almost 8,000 or 20 per cent in 1986, in anticipation of the fall in oil prices. Since then it has sold or closed down a large number of its US oil refining and production and minerals operations. The total realised from these disposals in 1986 was $2.3bn.

The drive to consolidate the core business of larger oil and gas operations has continued. Late last year US properties producing some 10,000 barrels per day were sold to a joint venture of Lonrho, in conjunction with Arco's colourful former chairman Mr Robert Anderson. This summer plans were announced to float off part of its profitable chemicals business.

This consolidation has been matched by an ambitious $4bn programme of buying in its own equity. Although this was wisely suspended at the beginning of this year, it was resumed soon after the October crash in stock market values.

The restructuring has left Arco as one of the strongest of the US oil companies in the mainstream oil and gas business, but its operations are heavily biased towards the US.

In the first nine months of this year, Arco's average US production of crude and natural gas liquids at 660,000 barrels a day was second only to that of Exxon. However, Arco's production of petroleum liquids outside the US, mainly from the North Sea and Indonesia, was only running at an average of 73,000 b/d, less than 7 per cent of Exxon's production outside the US, and much smaller than the foreign production of any of the other major US oil companies.

Similarly, in the downstream part of the business, Arco's after tax profit from US operations for the first nine months of this year ranked second after Amrada Hess, even though Arco is only the seventh largest US refiner.

The concentration of Arco's business is even more marked than these figures suggest. Arco was transformed by its extraordinary good fortune (shared with BP) in finding one of the US's largest oil fields at Prudhoe in 1968. In one leap it moved into the big oil league. The company, started by Mr Anderson at the age of 24 with borrowed capital of $50,000, is now the US's seventh largest oil company with net assets of just under $15bn at the end of last year.

Alaskan crude now accounts for just under 60 per cent of Arco's crude oil output, a proportion which is unlikely to fall for some time as newly developed Lisburne and Kuparuk reservoirs will compensate for the decline in output from the main Prudhoe bay field.

Nevertheless, Alaskan production is now near its peak, so Arco, like BP, is faced with the major problem of where future supplies of oil will come from.

Britoil, with more than 1bn barrels of proved reserves and good potential for discovering more, could be one answer. Even at 350p per share, Britoil's proved reserves look cheap, at around $2.3 per barrel. This is only about half the amount that the better oil companies expect to spend on finding oil by exploration. Moreover, BP and Arco can both see the advantage that a larger cash-rich company could gain by exploiting Britoil's leased acreage faster than might have been possible for the company on its own.

But unlike BP, Arco does not seem to be interested in outright control. Its proposed deal would have the effect of handing over the foreign assets to the smaller company in exchange for 20 per cent of the equity created by newly issued shares. The largest block of these assets would be in the North Sea, which accounted for the large majority of Arco's crude production outside the US last year. Arco's output from the UK sector of the North Sea last year was about half Britoil's.

Undoubtedly, the main attraction of Arco, from the Britoil management's point of view, is that it would expand its operations outside the UK and guarantee the company's independence, for a time at least. But for how long?

There are two possible medium term strategies open to Arco. The first would be to use the Britoil deal to shuffle off its relatively small foreign operations and further consolidate its energies in Alaska and the rest of the US. The second would be to keep Britoil in the corner of its mouth, to be swallowed later as the basis for a drive to expand outside the US.

Of course, it might do both.

MK Electric given extra defence time

MK Electric, currently subject to two hostile bids, has been granted a few extra days by the Takeover Panel in which to prepare its defence document.

Normally, it would be due this week-end, two weeks after RTZ put out its offer document. However, MK is being allowed extra time to muster its arguments against the subsequent bid from Legrand. The document is likely to be published tomorrow.

Glen Abbey losses

Glen Abbey, Dublin-based property and investment company which was transformed from a textile manufacturer after restructuring was completed in 1986, cut pre-tax its losses in the six months to June 30 1987.

Losses fell from I£205,000 (£186,000) to £6,000 on turnover down sharply from £3.53m to £131,000. After nil tax charges, losses per 25p ordinary share were cut from 5.7p to 0.13p.

Hardys & Hansons up by 14%

Hardys & Hansons, Nottingham-based brewer, reported pretax profit for the year to October 2 1987 up 14 per cent from £3.67m to £4.18m. Turnover was little changed at £20.87m against £20.52m.

Earnings per share were 53.59p (45.47p) and the directors are recommending a final payment of 15.3p (13.1p) making a total for the year of 21.5p (18.7p).

PENDING DIVIDENDS

Dates when some of the more important company dividend statements may be expected in the next few weeks are given in the following table. The dates shown are those of last year's announcements except when the forthcoming board meetings (indicated thus *) have been officially notified. Dividends to be declared will not necessarily be at the amounts in the column headed "Announcement last year."

	Date	Announcement last year		Date	Announcement last year
*Assoc Newsp	Jan 7	Final 4.5	*Racal Elec	Jan 28	Interim .7650
*Brit Land	Dec 15	Interim 1.25	Ratners	Jan 12	Interim 1.0
Dixons	Jan 14	Interim 1.2	*Thorn EMI	Dec 10	Interim 5.0
*English			THF	Jan 15	Final 4.67
China Clays	Dec 16	Final 8.25	*Vaux	Dec 15	Final 8.28
*Grand Met	Dec 17	Final 8.25	*Wardle		
Mountleigh	Dec 16	Interim 8.0	Storeys	Jan 8	Final 4.0

FINANCIAL TIMES STOCK INDICES

	Dec. 11	Dec. 10	Dec. 9	Dec. 8	Dec. 7	Dec. 4	1987 High	1987 Low	Since Compilation High	Since Compilation Low
Government Secs.	88.37	88.94	89.17	89.08	89.04	89.58	93.32	83.73	127.4	49.18
Fixed Interest	96.21	96.52	96.49	96.59	96.75	96.60	99.12	90.23	105.4	50.53
Ordinary	1310.7	1285.0	1297.6	1294.9	1279.3	1262.7	1926.2	1232.0	1926.2	49.4
Gold Mines	327.3	324.3	324.8	317.3	313.2	329.4	497.5	261.6	734.7	43.5
FT-Act All Share	831.08	814.37	821.60	815.50	809.05	795.96	1238.57	784.81	1238.57	61.92
FT-SE 100	1651.6	1619.6	1639.3	1624.4	1598.4	1582.8	2443.4	1565.2	2443.4	986.9

APPOINTMENTS

Pearl Group deputy chairman

Mr Reg Fearn has been appointed deputy chairman and a non-executive director of PEARL GROUP and PEARL ASSURANCE, on the retirement of **Mr James Elmslie.** Mr Fearn, who retires as Pearl Assurance company secretary, is succeeded by **Mr Derek Underwood. Mr Bill Flack,** who retires as general manager human resources and director of Pearl Assurance, has been appointed a non-executive director of Pearl Group. **Mr Robin Bevitt,** company solicitor, **Mr David Davies,** general manager (information systems) and **Mr Nigel Haygarth,** general manager (finance) have been appointed directors of the group's main operating subsidiary, Pearl Assurance.

★

UNITED TRANSPORT INTERNATIONAL has appointed **Mr Stephen Matthews** as a non-executive director. He is chairman of Copymore, and a director of Bellwinch and other companies.

★

Mr Nigel Williams has been appointed company secretary and group solicitor of PHH EUROPE, Swindon. He joins from *Hertz Europe*, where he was senior commercial lawyer.

★

Mr Faizal Mohamed has been appointed managing director of AUTEX FINANCIAL SERVICES (EUROPE). He was with Irving *Trust International.*

★

Mr L.R. Dowsett has been appointed to the board of DAVID GARRICK.

★

Mr Geoff Davies has been appointed operations director of the WE ARE CLEANING (GB) hi-tech division. He was *operations manager.*

★

Mr Larry Lowth and **Mr Peter Taylor** have been appointed joint chief executives of COPTHORNE HOTELS.

★

Following the takeover by HAYS CHEMICALS of Durham Chemical Distributors, Hays has confirmed the appointment of **Mr Graham Green** as chief executive of the new combined distribution division. He succeeds **Mr Alf Keeling,** who will continue to assist in the hand-over process.

Mr Dirk Heath has been appointed managing director of BILLITON UK. He succeeds **Mr Peter D.E. Church,** who continues as a director until the end of the year when he retires on health grounds.

★

From January 1 **Mr B.E. Palmer** is elected chairman of AVIATION & GENERAL INSURANCE COMPANY; **Mr D. Hammond Giles** is elected deputy chairman; and **Mr R.G. Dampier** is appointed deputy underwriter.

★

AUTOLEASE has appointed **Mr John Haynes** as sales and marketing director. He was regional director.

★

Mr H. Jago has been appointed director of Unionamerica Insurance Co.; **Mr H. Eyre** has been appointed director of Unionamerica Management Co.; and **Mr J. Sinclair** has been appointed director of Continental Reinsurance Management Co. All are companies in the London reinsurance operations of the CONTINENTAL CORPORATION.

★

The following have been admitted to partnership by DELOITTE HASKINS & SELLS. **Ms Jane Houlton** joins central management team dealing, London; **Mr Martin Winup** and **Mr Chris Winslet** in the London coporate and international tax department; **Mr Bill Cleghorn,** insolvency, Edinburgh; **Mr Edward Klempka,** insolvency, Leeds; **Mr Bernard McCarthy,** from the Inland Revenue, Leeds; **Mr Ian Smith,** audit partner and head of the business development group, Reading.

★

CHARTERHOUSE has appointed **Mr Richard Kilsby** as a managing director of Charterhouse Bank, to be responsible for developingand managing a new capital markets division. He is a partner in Price Waterhouse's London office, and will take up his new post in January. Charterhouse is in the Royal Bank of Scotland Group.

★

LOWE HOWARD-SPINK AND BELL has strengthened its group financial team. **Mr Nicholas Peck** has been promoted to financial director of Lowe International. He is succeeded as financial controller by **Mr Llewellyn Bruce-Morgan,** who was financial director of the Poster Sales Group. **Mr David Adams** becomes group treasurer; he has worked for Ellerman Lines and Lloyds Bank. **Ms Susan Hodgson** has been appointed group tax manager; she was with Arthur Andersen.

★

Mr Michael Ellis has joined SELLAR MORRIS DEVELOPMENTS as development director. He was with Durkan Property Developments.

★

Mr Ken Whitehouse, managing director of NEI International Combustion, has been elected *the first president of the newly-*formed POWER PLANT CONTRACTORS' ASSOCIATION.

★

Following the appointment of **Dr David Simpson** as chairman, PRESTWICK HOLDINGS, Ayr, has appointed **Mr Douglas McKenzie** as operations director and **Mr David Hall** as a non-executive director to advise on marketing.

★

Mr Colin T. Spillane joins the FORESTRY COMMISSION on January 25 as controller of finance. He is currently accountancy adviser at the Welsh Office.

★

Mr Roger Derwent has been appointed *to the main board of* FOLKES GROUP as financial director. He held a similar position on the board of FH Lloyd Holdings. He succeeds **Mr Des Newey** who is now preparing for retirement but remains on the board.

★

FIRST EUROPE EQUITY AND BOND COMPANY has appointed **Mr Jerzy Sobor-Kaminski** as a director. He was managing director, Europe, of County NatWest Securities and a director of NatWest Investment Bank.

★

Mr Roy Freeland has been appointed managing director of the energy engineering division *of MEGGITT HOLDINGS.*

CONTRACTS

Opencast mining at Dyfed

WIMPEY MINING, a subsidiary of George Wimpey, has been awarded a £26.5m contract by the British Coal Open-Cast Executive to extract 922,000 tonnes of coal from the British Coal's Gilfach Iago opencast site site at Saron Road, Ammanford, Dyfed.

The 129-hectare site will have a productive life of over seven years, at a contractural rate of 2,500 tonnes a week. The work will entail considerable expansion of activity at the site and will create new jobs locally.

Located next to the Glyn Tai opencast site where Wimpey recently completed a four-year contract for British Coal in the course of which 250,000 tonnes of coal were extracted. Gilfach Iago will be restored to agricultural grazing land at the end of its productive life.

Wimpey Mining is currently operating 10 sites in the UK, two in Scotland, five in Wales, two in Cumbria and one in County Durham. In 1986 Wimpey Mining recovered well over 1m tonnes of coal for the British Opencast Executive.

Combined heat and power plant for Finland

The Asea Stal subsidiary in Helsinki, **OY ASEA STAL,** has sold a combined heat and power gas turbine plant, consisting of two Centaur H gas turbines, to Imatran Energia Oy, Finland. The order, which is worth around £3m, also includes exhaust-gas boilers and ancillary systems.

The gas turbine power plant, which will use natural gas, will supply about 8 MW of electricity to the local power distribution company, Imatran Seudun Sahko Oy, and 24 MW of heat to the district heating system in the town of Imatra.

Asea Stal will be responsible for the turnkey installation, which is scheduled for delivery in the autumn of 1988. Asea Stal's partner in the project is Tuma-Turbomach of Switzerland, which will be supplying the gas turbine unit being manufactured by the US company, Solar Inc.

Controlling pharmaceutical production

NAPP Pharmaceutical Group, Cambridge, has ordered the **HONEYWELL BULL** pharmaceutical system. This is the first UK order since the system was announced in October. The system is specifically designed for pharmaceutical and fine chemical manufacturers, where there is a particular need for the close integration of data control, product traceability and business management. Information management facilities are provided by STATUS, a free-text retrieval system, with access to public and external medical databases, as well as through Honeywell Bull's One Plus departmental and office automation software. The system is comprehensive and includes fully integrated weighing machines and Pragma bar code printers and readers to cater for the various needs of the pharmaceutical industry. The system has been approved by the US Food & Drug Adminstration. Installation is planned for early next year. It is understood that the value of the combined hardware and software package is over £1m.

BP hydrocracker rehabilitation project

Following completion of contracts for dismantling damaged plant and providing engineering support for the hydrocracker rehabilitation project at BP Oil's refinery at Grangemouth, **PRESS CONSTRUCTION** has been awarded a contract estimated at £450,000 to prepare for the main rehabilitation programme. Through its Renfrew regional office, Press's industrial engineering division is supplying personnel and equipment for general works associated with the preparation for the hydrocracker unit rehabilitation. Up to 25 tradespeople will be engaged on the project at peak times, most of them mechanical fitters, riggers and pipefitters, with some welders. The project is scheduled for completion in March next year. Press Construction is part of AMEC, the international construction and engineering group.

Engineering training equipment for colleges

Contracts to supply engineering training equipment worth over £150,000 for three new regional centres of excellence have been won by **TECQUIPMENT INTERNATIONAL,** Nottingham. The centres are at Stow College, Glasgow; Stockport College of Technology; and Havering Technical College, Essex. The centres have been established as part of a Department of Trade and Industry initiative to improve the standards of advanced manufacturing technology technical training. Each system to be supplied comprises four all-British automated machine tools and three robot arms, together with two inspection stations. Each robot and CNC machine tool has its own microprocessor connected to the central computer.

LONDON RECENT ISSUES

EQUITIES

Issue Price p	Amount Paid up	Latest Renunc. date	1987 High	1987 Low	Stock	Closing Price p	+ or -	Net Div.	Times Cov'd	Gross Yield	P.E. Ratio
§55	F.P.	-	61	55	‡Allied Restaurants 5p	61	+1	L1.1	4.6	2.5	12.0
330	120	-	88	71	British Petroleum	72	-½	N12.5	1.5	6.1	14.0
†	F.P.	-	268	231	English & Caledonian Inv.	231		-	-	-	-
350	F.P.	-	284	248	Eurotunnel Units	248	-2	-	-	-	-
-	F.P.	-	13	10	Do Warrants	14	-1½	-	-	-	-
†	F.P.	-	152	100	Hard Rock Intl. 2p	130	-1	L1.53	3.3	1.6	23.5
†	F.P.	-	125	85	Do 'A' (Restricted Vtg)2p	88	+1	L1.53	3.3	2.4	15.9
§75	F.P.	-	78	75	Nestor-BNA 10p	76	+1	R1.85	2.5	3.3	16.5
§80	F.P.	-	101	90	Paragon Comms. 5p	90	-3	R2.5	3.4	3.8	10.5
§18	F.P.	-	21	19	‡Pathfinders Grp. 5p	20		b0.29	3.9	1.9	18.4
§114	F.P.	-	121	115	‡Sykes-Pickavant 10p	116		R5.25	2.0	6.1	11.1
§70	F.P.	-	73	66	‡Trevian Hldgs. 10p	66		-	-	-	-

FIXED INTEREST STOCKS

Issue Price £	Amount Paid up	Latest Renunc. Date	1987 High	1987 Low	Stock	Closing Price £	+ or -
§	F.P.	-	75p	65p	*Abelson 5¼pc. Cn.Cu.Rd.Pf 2006	73p	+8
-	-	-	99½	90½	Ansbacher(H.)9pc.Cnv.Sub.Ln.1998	97½	
100	£10	21/1	14	10¼	Chester Wtr. Wks. 11¾pc Rd.Db.98/2000	12	
100p	F.P.	-	87p	63p	Helical Bar 5¼pc. Cnv.Cum.Red.Pf.2012	66p	+3
-	F.P.	-	101⅛	99⅞	N'wide Anglia 10⅛pc 12.9.88	101⅛	
-	F.P.	-	101⅛	99¼	Do. 10⅛pc 26.9.88	101⅛	
-	F.P.	-	101⅛	100⅜	Do. 10⅛pc 31.10.88	100⅜	
-	F.P.	-	100¼	99⅞	Do. 9¼pc 28.11.88	100	
§	F.P.	-	109½	99½	Next 5¼pc Cnv. 2003	103¼	
§100	F.P.	-	115p	100p	Record Hldgs. 10pc Cum. Red. Prf. £1	100p	
100	F.P.	-	95p	70p	‡Shield Grp. 5.84pc Cnv. Cum. Red. Pf	70p	
-	F.P.	13/11	82p	70p	Utd. Scientific 5½pc Cum. N-V. Pref.	79p	
100p	F.P.	-	108p	100p	‡Willaire Fixed Rate Cnv.Cum.Red.Pfr.	105p	

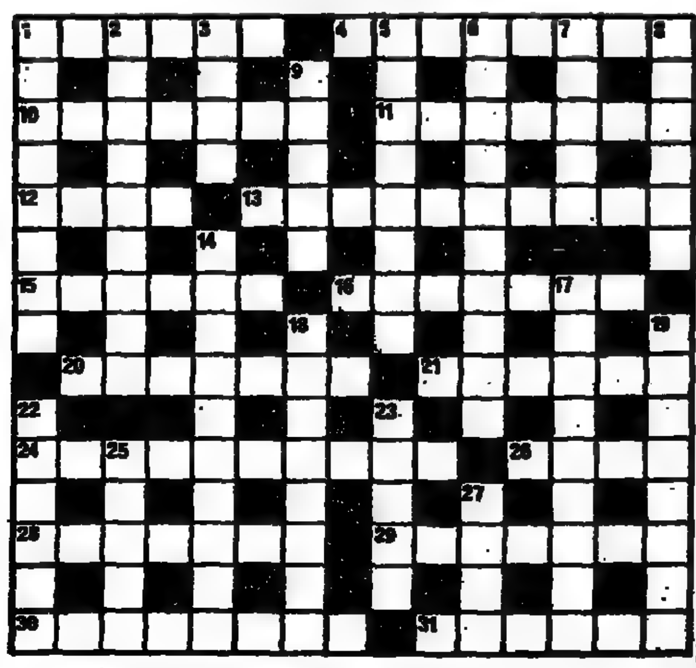
RIGHTS OFFERS

Issue Price p	Amount Paid up	Latest Renunc. Date	1987 High	1987 Low	Stock	Closing Price p	+ or -
300	Nil	-	52pm	19pm	‡Applied Holographics 5p	23pm	-3
§	Nil	21/12	4½pm	¾pm	City & Foreign	2pm	
80	Nil	-	460pm	205pm	Press Tools	230pm	
85	Nil	13/1	¾pm	¾pm	‡RKF Grp. 10p	¾pm	

Renunciation date usually last day for dealing free of stamp duty.a Annualised dividend.b Figures based on prospectus estimates.d Dividend rate paid or payable on part of capital, cover based on dividend on full capital.g Assumed dividend and yield. L Estimated annualised dividend,cover and p/e based on latest annual earnings.N Dividend and yield based on prospectus or other official estimates for 1987. Q Gross.R Forecast annualised dividend,cover and p/e ratio based on prospectus or other official estimates. W Pro Forma figures.Z Cover does not allow for shares which may also rank for dividend at a future date. No P/E ratio usually provided. ¶ Issued by tender.◆ Offered to holders of ordinary shares as a rights.† Introduction.§ Placing price.†† Reintroduction.◆ Issued in connection with reorganisation merger or takeover.‡ Allotment price.‡ Unlisted securities market.◆ Official London listing.□ Including warrants entitlement.* Third Market.

FT CROSSWORD No.6,507

SET BY HIGHLANDER



ACROSS

1 Respect for king perhaps (6)
4 Call up and arm the engineers first (8)
10 Police department once used to suspend naval miscreants (7)
11 Search for and find watch (4,3)
12 The first of us gives notice in the morning (4)
13 He gets strangers talking and is useful when main is frozen (10)
15 Show first mate round, in and about (6)
16 Boost not working - leave launch pad (4,3)
20 Someone who can't appreciate Tangier is crazy (7)
21 Rise up and wave (6)
24 Murdered and abandoned round watering-hole (10)
26 Second hand in famous Edwardian clock (4)
28 I raced round and about with naughty books (7)
29 Measures high place (7)
30 Seasoning? Salt, in the past (in the navy) (8)
31 Saw old suffer arrest (6)

DOWN

1 Farmworker contributes to Punch (8)
2 Dashed over with share account (9)
3 Country hasn't begun to reveal these mountains (4)
5 From the collection of different Bries - about 41 (2,6)
6 Thinking of oneself, for example over concerti arrangements (10)
7 Stream appears a small river in volume (5)
8 Come back with flask (6)
9 Buffeting for coastal vessel (5)
14 Mark - old Roman with a fever (10)
17 Using all resources, complete system of graduation (4-5)
18 Cast is off, about to play shortly, separately (8)
19 Saw unusually educated cleric was in front, wrapped up (8)
22 It's coming from the overhead ventilation system (6)
23 Sort of face that lights up (5)
25 Search thoroughly for indication of carbon in acid (5)
27 Man's one hearing passage (4)

The solution to last Saturday's prize puzzle will be published with names of winners next Saturday.

FT UNIT TRUST INFORMATION SERVICE

AUTHORISED UNIT TRUSTS

[illegible]

FT UNIT TRUST INFORMATION SERVICE

Trades Union Unit Trust Managers
100 Wood Street, London EC2 01-606 4355

TUUT Dec 1 87	175.6	189.1	—	3.72

Tyndall Unit Trust Managers Limited
25 Bucklersbury, London EC4N 248 3399

Convertible & Gilt	56.6	60.0	+0.7	6.81
Accum Units	56.6	60.0	+0.7	6.81
Income	70.8	75.0	+0.3	5.79
Accum Units	70.8	75.0	+0.3	5.79
Smaller Co's	77.4	82.0	+0.6	1.79
Accum Units	77.4	82.0	+0.6	1.79
UK Growth	79.8	84.6	+0.5	1.61
Accum Units	79.8	84.6	+0.5	1.61

Unit Trust Account & Mgmt. Ltd
20 Copthall Ave, London, EC2R 7PA 01-588 6064

Vanguard Trust Managers Ltd
65 Holborn Viaduct, London EC1A 2EU 01-236 3053

INSURANCES

Continued on next page

FT UNIT TRUST INFORMATION SERVICE

Phoenix Assurance Co Ltd
Phoenix House, Redcliff Hill, Bristol 0272 294941

Life Assurance Funds				
Wealth Assoc.	348.4	366.9	—	—
Eb'r Ph. Eq.	304.1	323.2	—	—
Pension Plan Funds				
Phoenix				
UK Equity Acc.	147.6	156.3	+0.4	—
International Acc.	112.9	118.8	−1.9	—
Property Acc.	120.2	126.5	—	—
Fixed Interest Acc.	147.7	155.4	−0.8	—
Money Acc.	133.3	140.3	+0.1	—
Bldg. Soc. Link Acc.	131.2	138.1	+0.2	—
Special Mngd. Acc.	133.4	140.4	−0.4	—
Phoenix/Framlington				
Intnl. Growth Acc.	71.8	75.5	+1.0	—
Amer. & Gen. Acc.	65.1	68.5	+1.4	—
Capital Tst. Acc.	153.9	161.9	+3.0	—
Japan & Gen Acc.	153.0	161.0	+1.9	—
American Turn. Acc.	65.4	68.8	+1.0	—
Recovery Tst. Acc.	138.9	146.2	+1.0	—
Special Mngd Acc.	123.0	129.4	+0.7	—
Phoenix/GT				
International Acc.	108.6	114.3	+1.4	—
US & General Acc.	79.2	83.2	+2.0	—
Amer Spec Sits Acc.	53.2	56.0	+1.5	—
Japan & General Acc.	151.1	159.0	+2.1	—
Far East & Gen. Acc.	125.7	132.3	+2.0	—
UK Capital Acc.	145.1	152.7	+1.7	—
European Acc.	119.2	125.4	+1.2	—
Special Mngd. Acc.	110.6	116.4	+1.4	—

Pioneer Mutual Insurance Co Ltd
16 Crosby Rd, N. Waterloo, Liverpool 051-928 6655

Managed Fund	248.6	261.7	—	—
Man Pens Inc & Cap Fds	313.8	330.4	—	—
Money Fund	110.3	116.2	—	—
Pens. Mngd Fd (Init)	73.9	77.8	—	—
Pens Mngd Fd (Acc)	81.9	86.3	—	—
Pens FT30 Fd (Init)	116.8	123.0	—	—
Pens FT30 Fd (Acc)	129.5	136.4	—	—
Pens O'seas MgFd(Init)	44.9	47.3	—	—
Pens O'seas MgFd(Acc)	49.8	52.5	—	—
Pens Fxd Int Fd (Init)	105.3	110.9	—	—
Pens Fxd Int Fd (Acc)	116.8	123.0	—	—
Pens Deposit Fd (Init)	100.5	105.6	—	—
Pens Deposit Fd (Acc)	111.3	117.2	—	—

Premium Life Assurance Co Ltd
Eastchester House, Haywards Heath 0444 458721

Prudential Assurance Co
Holborn Bars, London EC1N 2NH 01-405 9222

Prubond				
Managed Dec 09	182.6	190.3	—	—

Prudential Holborn Life Ltd
Portland Hse, Stag Place, Ldn SW1E 5BH 01-630 1661

Managed Fd.	403.0	424.3	−0.6	—
Equity Fd.	807.0	849.5	+2.4	—
Intnl. Fd.	278.9	293.6	—	—
Fixed Int. Fd.	349.9	368.4	−2.1	—
Prop. Fd.	296.1	311.7	—	—
Cash Fd.	231.7	243.9	—	—
Pacific Basin Fd.	153.5	161.6	—	—
North American Fd.	108.4	114.2	—	—
European Fd.	132.2	139.2	+0.8	—
Holborn Balanced Gwth Fd	—	—	—	—
Holborn Strategic Gwth Fd	—	—	—	—

Prudential Holborn Pensions Ltd
Portland Hse, Stag Place, Ldn SW1E 5BH 01-630 1661

Managed	423.7	446.1	—	—
Equity	590.0	621.1	—	—
Global Equity	171.0	180.1	—	—
Fixed Interest	361.5	380.6	—	—
Property	296.9	312.6	—	—
Cash	135.5	142.7	—	—
Index Linked Gilt	161.5	170.1	—	—
Guaranteed	9.25	10.25	—	—
International Money	182.7	192.4	—	—
North American Fd	50.2	52.9	—	—
Japanese Fund	98.19	103.3	—	—
European Fund	68.5	72.2	—	—
Special Situations Fd	79.2	83.4	—	—
Communications Fund	68.4	72.0	—	—
Smaller Cos Fund	81.7	86.0	—	—

Prudential Pensions Limited
Holborn Bars, London EC1N 2NH 01-405 9222

Discretry Dec 9	£111.65	114.94	+0.95	—
Equity Fund Dec 9	£117.32	120.89	+1.70	—
Intnl Fund Dec 9	£18.57	19.17	+0.17	—
Intl Bond Fd Dec 9	£9.96	10.09	+0.01	—
Fixed Int Dec 9	£64.04	65.70	−0.57	—
Index Linked Dec 9	£48.69	49.25	−0.15	—
Property Fund Dec 9	£72.84	77.33	+0.09	—

MANAGEMENT SERVICES

OFFSHORE AND OVERSEAS

FT UNIT TRUST INFORMATION SERVICE

LONDON SHARE SERVICE

BRITISH FUNDS

Interest Due	Stock	Price £	Last xd	Yield Int.	Red.
	"Shorts" (Lives up to Five Years)				
26 Jul 26 Jan	Treas 7¾pc 1985–88‡‡	99⅞	19.6	7.76	8.56
10Nov 10May	Exch 10pc '88	100½	5.10	10.42	8.38
14Dec 14Jun	Treas 9¾pc Cv '88	100⅝xd	9.11	9.69	8.42
1Jan 1Jul	Transport 3pc '78–88	97⅝xd	10.11	3.07	7.05
25 Apr 25 Oct	Treas. 9½pc '88	100⅜	18.9	9.44	8.64
22 Aug 22 Feb	Treas 11½pc 1989	102¾	16.7	11.18	8.79
18 Oct 18 Apr	Treas 9½pc Cnv 1989	100⅞	11.9	9.42	8.77
15Nov 15May	Treas 3pc 1989	95⅝	9.10	3.14	6.32
14Dec 14Jun	Treas 10½pc 1989	102⅛xd	9.11	10.26	8.79
1Feb 1Aug	Exch 10pc 1989	101⅝	25.6	9.84	8.85
29 Mar 29 Sep	Exch 11pc 1989	103⅛	24.8	10.64	8.91
15 Apr 15 Oct	Treas 5pc 1986–89	95¾	8.9	5.22	7.49
15 May 15 Nov	Exch 10½pcCv '89	101⅝	9.10	9.95	8.47
25 Jul 25 Jan	Treas 13pc 1990‡‡	107⅛xd	8.6	12.10	9.00
12 Aug 12 Feb	Exch 11pc 1990‡‡	103¼	26.7	10.62	9.07
22 Sep 22 Mar	Exch. 12¼pc 1990	107⅛	17.8	11.49	9.06
8 Nov 8 May	Treas. 3pc 1990	91⅜	2.10	3.28	6.90
15 Dec 15 Jun	Treas 8¼pc 1987–90‡‡	99⅛xd	9.11	8.32	8.61
25 Apr 25 Oct	Treas. 10pcCv 1990	102⅛	18.9	9.78	9.07
22 May 22 Nov	Exch 2½pc 1990	89⅛	16.10	2.80	6.58
10 July 10 Jan	Treas 11½pc 1991	107⅜xd	3.6	10.98	9.08
5Oct 5Apr	Funding 5¾pc '87–91‡‡	93⅝	1.9	6.14	7.97
13 Nov 13 May	Treas. 3pc 1991	88⅛	7.10	3.39	6.86
12Jan 12July	Treas 10pc Cv '91 ‡‡	103¾xd	5.6	9.63	8.72
25Apr 25Oct	Exch. 11pc 1991	106¼	18.9	10.38	9.11
10Jan 10Dec	Treas. 8pc 1991	96⅝	3.11	8.30	9.08
22Jly 22Jan	Treas 12¾pc 1992‡‡	112	15.6	11.39	9.17
21Aug 21Feb	Treas 10pc 1992	102⅞	15.7	9.73	9.16
13Oct 13Apr	Treas. 8pc 1992 ‡‡	96⅛	11.6	8.32	9.09
7 Nov 7 May	Treas 10½pc Cv 1992‡‡	104⅜	1.9	10.06	9.20
11Dec 11Jun	Treas. 3pc 1992	84⅜xd	4.11	3.74	8.03
25 Feb 25 Aug	Exch. 12¼pc '92	110⅝	20.7	11.06	9.33
22Mar 22Sep	Exch 13½pc 1992	115⅞	17.8	11.69	9.38
	Five to Fifteen Years				
15Oct 15Apr	Treas 10pc 1993‡‡	103⅛	8.9	9.72	9.30
14Jan 14Jul	Treas 12½pc 1993‡‡	113⅛xd	8.6	11.05	9.42
15Mar 15Sep	Funding 6pc 1993‡‡	90⅛	10.8	6.67	8.23
22May 23Nov	Treas 13¾pc 1993‡‡	119⅝	16.4	11.55	9.47
1 Sept 1 Mar	Treas 14½pc 1994‡‡	123⅜	27.7	11.77	9.47
27Oct 27Apr	Exch 13½pc 1994	118⅝	21.10	11.42	9.59
9Dec 9Jun	Treas. 10pc Ln. 1994‡‡	102⅝	2.11	9.74	9.44
22Feb 22Aug	Exch. 12½pc 1994	113⅝	16.7	10.99	9.64
17May 17Nov	Treas 9pc 1994‡‡	98⅛	12.10	9.18	9.39
25Jul 25Jan	Treas 12pc 1995	111⅜	18.6	10.77	9.72
1Nov 1May	Exch 3pc Gas 90–95	80½	25.9	3.71	6.30
21Jan 21Jul	Exch. 10¼pc 1995	102⅞	15.6	9.96	9.68
15May 15Nov	Treas 12¾pc 1995‡‡	116⅜	9.10	10.96	9.73
22Jly 22Jan	Treas. 14pc '96	122⅜	15.6	11.44	9.89
15Sep 15Mar	Treas 9pc 1992–96‡‡	97⅜	10.8	9.25	9.46
3Nov 3May	Treas 15¼pc 1996‡‡	130	28.9	11.74	9.90
15Nov 15May	Exch 13¼pc 1996‡‡	119⅝	9.10	11.10	9.81
1Apr 1Oct	Redemption 3pc 1986–96	84⅜	25.8	3.54	5.18
15May 15Nov	Conversion 10pc 1996	101⅜	9.10	9.87	9.77
22Jul 22Jan	Treas 13¼pc 1997‡‡	119⅜	15.6	11.06	9.88
21Aug 21Feb	Exch 10½pc 1997	103⅜	15.7	10.11	9.82
1Mar 1Sep	Treas 8¾pc 1997‡‡	94⅛	27.7	9.29	9.68
27Apr 27Oct	Exch 15pc 1997	130⅜	21.9	11.51	10.07
19 Jul 19 Jan	Exch. 9¾pc 1998	99⅜	12.6	9.80	9.81
1Nov 1May	Treas 6¾pc 1995–98‡‡	82⅝	25.9	8.18	9.42
30Mar 30Sep	Treas. 15½pc '98‡‡	135⅛	24.8	11.46	10.05
20May 20Nov	Exch. 12pc 1998	113⅝	14.10	10.56	9.91
15Jul 15Jan	Treas 9½pc 1999‡‡	98⅝xd	8.6	9.61	9.67
26Sep 26Mar	Exch. 12¼pc 1999	115⅛	20.8	10.63	9.93
19Nov 19May	Treas. 10½pc 1999	104⅜	13.10	10.05	9.84
22May 22Nov	Conversion 10¼pc 1999	102⅞	16.10	9.96	9.83
28July 28Jan	Tr 8½pc La ‡‡	91⅞	–	8.92	9.02
3Sept 3Mar	Conversion 9pc 2000‡‡	95⅛	28.7	9.47	9.70
14Jan 14Jul	Treas. 13pc 2000	121⅛xd	8.6	10.72	10.00
26 Aug 26 Feb	Treas 10pc 2001	101⅜	20.7	9.85	9.77
22Nov 22May	Treas. 14pc '98–01	125⅛	16.10	11.19	10.05
10Feb 10Aug	Conversion 9¾pc 2001	99¾	6.7	9.77	9.75
22Jul 22Jan	Exch. 12pc '99–02	113⅜	15.6	10.58	9.95
11 Oct 11 Apr	Conversion 10pc 2002	101⅞	4.9	9.81	9.74
27 Feb 27 Aug	Treas 9¾pc 2002	100	21.7	9.74	9.73
19May 19Nov	Exch. 9pc 2002	94⅝	13.10	9.50	9.66
	Over Fifteen Years				
25Jan 25Jul	Treas. 13¾pc 2000–03	126⅛	18.6	10.89	10.02
8 Mar 8 Sept	Treas 10pc 2003	102⅜	3.8	9.76	9.69
19Sep 19Mar	Treas. 11½pc 2001–04	111⅜	13.8	10.27	9.86
18 Nov 18 May	Treas. 10pc 2004	102⅜	12.10	9.94	9.68
14Jan 14Jul	Funding 3½pc '99–04	55⅜xd	8.6	6.31	8.58
25 Apr 25 Oct	Conversion 9½pc 2004	98⅜	18.9	9.63	9.65
18 Oct 18 Apr	Conversion 9½pc 2005	98⅜	11.9	9.62	9.64
20 Mar 20 Sep	Exch.10½pc 2005	107⅞	14.8	9.78	9.62
21May 21Nov	Treas. 12½pc 2003–05	121⅜	15.10	10.25	9.75
5Apr 5Oct	Treas. 8pc 2002–06‡‡	86⅜	1.9	9.26	9.56
15May 15Nov	Conversion 9¾pc 2006	100⅜	9.10	9.66	9.63
22Jly 22Jan	Treas. 11¾pc 2003–07	115⅛	15.6	10.19	9.77
16Jan 16Jul	Treas 8½pc 2007 ‡‡	92⅛xd	9.6	9.35	9.53
26Sep 26Mar	Treas. 13½pc '04–08	130⅛	20.8	10.39	9.73
13Apr 13Oct	Treas. 9pc 2008 ‡‡	95⅛	7.9	9.43	9.50
13Apr 13Oct	Treas. 9pc Ln 2008 "A"	95⅛	–	9.43	9.50
25Mar 25Sep	Treas 8pc 2009	86⅜	19.8	9.25	9.47
12Jan 12Jly	Conv 9pc Ln 2011	95⅛xd	–	9.46	9.52
10Mar 10Sep	Treas. 5½pc 2008–12‡‡	63⅜	4.8	8.62	9.24
26Jly 26Jan	Treas. 7¾pc 2012–15‡‡	83⅝	19.6	9.27	9.43
12Jun 12Dec	Exch. 12pc '13–'17	123⅛xd	5.11	9.75	9.57

BRITISH FUNDS – Contd

Interest Due	Stock	Price £	Last xd	Yield Int.	Red.
	Undated				
1Feb 1Aug	Consols 4pc	42⅜	25.6	9.57	–
1Jun 1Dec	War Loan 3½pc‡‡	37⅝	26.10	9.24	–
1Apr 1Oct	Conv. 3½pc '61 Aft	49⅝	25.8	6.99	–
5Apr 5Oct	Treas. 3pc '66 Aft	32⅛	1.9	9.23	–
5Ja Ap Jly O	Consols 2½pc	26⅜xd	1.6	9.45	–
1Apr 1Oct	Treas. 2½pc	26⅜	25.8	9.39	–
	Index–Linked			(1)	(2)
30 Sep 30 Mar	Treas. 2pc '88(297.1)	133⅛	24.8	–	–
25 Jul 25 Jan	Do. 2pc '90(333.9)	117⅜	18.6	1.05	2.29
23Sep 23Mar	Do. 2pc '92‡‡ (385.8)	99⅝	17.8	2.05	2.67
16Mar 16Sep	Do. 2pc '96(267.9)	129⅞	10.8	3.38	3.70
24Mar 24Sep	Do 2½pc '01 (308.8)	108⅜	28.8	3.69	3.90
20Nov 20May	Do. 2½pc '03(310.7)	106⅝	14.10	3.65	3.89
19Jan 19Jly	Do. 2pc '06(274.1)	100⅛	12.6	3.70	3.91
20Nov 20May	Do. 2½pc '09(310.7)	101¾	14.10	3.70	3.90
23Feb 23Aug	Do. 2½pc '11(294.1)	105⅜	17.7	3.70	3.88
16Feb 16Aug	Do. 2½pc '13(351.9)	87⅜	13.7	3.68	3.85
26Jan 26Jly	Do. 2½pc '16(322.0)	95⅛	19.6	3.63	3.80
16Oct 16Apr	Do. 2½pc '20 (327.3)	93⅜	9.9	3.56	3.71
17Jan 17July	Do. 2½pc '24 ‡‡(385.3)	78⅜xd	10.6	3.61	3.64

Prospective real redemption rate on projected inflation of (1) 10% and (2) 5%. (b) Figures in parentheses show RPI base month for indexing, ie 8 months prior to issue. RPI for April 1987:101.8 and for November 1987: 103.4 (rebased at 100 January 1987 conversion factor 3.945).

INT. BANK AND O'SEAS GOVT STERLING ISSUES

Interest Due	Stock	Price £	Last xd	Yield Int.	Red.
4 Jan 4 Jun	African Dv Bk 11¼Ln 2010	102⅞	4.6	10.86	10.83
24Mar 24Sep	Asian Dev Bk 10¼pcLn2009	98⅜	26.8	10.40	10.45
28Jan 28Jly	Australia 13½pc 2010	122⅜	29.6	11.00	10.78
26Apr 26Oct	Do. 11¾pcLn2015	105⅞	24.8	10.74	10.70
23Mar 23Sep	Euro Inv Bk 11pc Ln 2002	105⅛	24.8	10.47	10.32
22Mar 22Nov	Do. 10⅜pc2004	100⅛xd	16.10	10.35	10.33
8Jan 8Jul	Int–Am Dev Bk 12½pc 2003	114⅜	22.10	10.90	10.54
15 May 15 Nov	Do. 9¾pcLn 2015	93⅜	14.10	10.45	10.51
31 Jan 31 Jul	Mysia 10⅝pcLn 2009	87	1.7	12.36	12.49
4May 4Nov	NZ 11¼pc 2008	104⅛	3.10	10.79	10.74
25May 25Sep	Do 11½pc 2014	106⅝	26.8	10.77	10.71
22 Jan 22 July	Sweden 13½pc Ln 2010	123⅞	22.6	10.90	10.65
1Mar 1Sep	Utd. Mexican States 16½pc 2008	95⅜	3.8	17.20	22.86

CORPORATION LOANS

Interest Due	Stock	Price £	Last xd	Yield Int.	Red.
20 May 20 Nov	Birmingham 13½pc 1989	105⅞xd	20.10	12.78	10.20
15May 15Nov	Do. 11½pc 2012	104⅛xd	15.10	11.03	10.99
15Feb 15Aug	GLC 6½pc 1990–92	90xd	14.7	7.50	10.70
1Apr 1Oct	Leeds 13½pc 2006	121½	11.9	11.11	13.39
1Ja Apr Jn Oc	Liverpool 3½pc Irred	35xd	1.9	10.33	–
10Jan 10Jly	LCC 6¾pc '88–90	92¾xd	10.6	7.28	10.02
1Mar Jn S D	Do. 3pc '20 Aft	29½xd	3.8	10.17	–
25Apr 25Oct	Manchester 11½pc 2007	109	9.10	10.55	10.40

COMMONWEALTH & AFRICAN LOANS

Interest Due	Stock	Price £	Last xd	Yield Int.	Red.
1Jan 1Jul	NZ 7½pc 1988–92	90	1.12	8.06	10.11
1Apr 1Oct	S Rhod 2½pc Non–Assd	205	–	–	–
7Feb 7Aug	Do. 4½pc 87–92 Assd	77	7.1	–	–
15Apr 15Oct	Zimbabwe Ann (£100pa)	87½	15.9	–	–

LOANS

Interest Due	Stock	Price £	Last xd	Yield Int.	Red.
15 Jun 21 Dec	N'wide 11½pc 21.12.87	100⅛	18.5	11.56	9.31
18 Jan 12 Jly	Do. 11¼pc 18.1.88	100⅛	12.6	11.11	8.95
15Feb 9Aug	Do. 10⅞pc 15.2.88	100⅛xd	10.7	10.79	8.94
7Mar 25Sept	Do 10½pc 7.3.88	100⅛	27.7	10.46	8.90
11Apr 6Oct	Do. 9⅞pc 11.4.88	100⅛	7.9	9.91	9.00
3May 27Oct	Do. 9⅝pc 3.5.88	100⅛xd	28.9	9.67	9.00
23May 18Nov	Do. 8⅞pc 23.5.88	99⅝xd	21.09	8.89	9.14
20Jun 15Dec	Do. 8⅞pc 20.6.88	99⅝xd	16.10	8.94	9.11
6Jan 11Jly	Do. 9⅝pc 11.7.88	100⅛xd	09.11	9.59	9.09
27Jan 1Aug	Do. 10pc 1.8.88	100⅛	–	9.95	9.07
17Feb 22Aug	Do 10½pc 22.8.88	100⅜	–	10.47	9.07
–	Do. 3⅞pcUL La 2021	93⅛	13.7	4.37	4.53
	Public Board and Ind.				
1Jan 1July	Agric. Mt. 5pc '59–89	92¼xd	1.6	5.42	10.57
1Mar 1Sep	Met. Wtr. 3pc 'B'	45xd	1.8	6.67	9.65
	Financial				
11Jan 11Jly	Inv in Ind 11pc Uns Ln '88	100	1.6	11.00	11.65
11Jan 11Jly	Do. 11¾pc Uns Ln '90	103½xd	09.11	11.35	11.69
30Sep 31Dec	Do 7¼pcA Db89–92	91½	11.5	7.92	10.70
14Mar 14Sep	Do. 12½pc Uns. Ln. 1992	108	10.8	11.57	10.80
31Mar 30Sep	Do. 7¼pcA '91–94	92	30.9	7.97	7.40
31 Mar 30 Sept	Do. 9pcA '91–94	100	30.9	9.00	9.90
31Apr 28Feb	Do. 8¾pcLn '92–97	96½	27.7	9.01	7.50

FOREIGN BONDS & RAILS

Interest Due	Stock	Price £	Last xd	Div % Gross	Yield
1Apr 1Oct	Greek 7pc Ass. (B)	45xd	2.11	3.50	7.42
1Feb 1Aug	Do. 6pc 28 Stb. Ass	45	3.8	3	6.37
1Apr 1Oct	Do 4pc Mixed Ass	45	1.10	2	4.44
1May 1Nov	Hung. '24 Ass(B)	64	5'85	2.75	4.15
31May 30Nov	Hydro Quebec 15pc 2011	133⅜	3.6	15.00	10.20
31Jan 31Jly	Iceland 14½pc Ln 2016	120⅜	9.7	14.50	10.99
1Mar 15Sept	Ireland 9¾pc '91–96	99¼	10.8	9.82	10.76

AMERICANS

Dividends Paid	Stock	Price £	Last xd	Div Gross	C'vr	Y'ld Gr's
Fb My Ag Nv	Abbott Laboratories‖	24⅝	9.10	$1.00	–	2.2
F My Ag N	Alcan $1	24⅜	28.4	$1.20	–	2.7
–	♥Allegheny & W $0.01	450p	–	30c	–	3.7
–	Amax $1	10⅛	5'85	–	–	–
Nv Mr Jn Ag	Amdahl 5c	16¼	5.11	20c	–	0.7
Mr.Je.Se.De.	Amer. Cyanamid $5	20⅞	25.8	$1.05	–	2.8
Fb My Ag Nv	Amer. Express $0.60	11⅞xd	12.1	76c	–	3.5
Fb My Au Nv	Amer. Medical Int. $1	680p	13.09	♦72c	–	5.8
Fb My Ag Nv	American T. & T. $1	14¾	25.9	$1.20	–	4.5
Fb My Ag Nv	Ameritech $1	45¼	29.12	‡$4.72	–	5.7
–	Amfac‖	15¾	11'84	–	–	–
–	Anheuser–Busch $1	17½xd	–	60c	–	1.9
–	♥AridTech‖	53p	–	–	–	–
–	BankAmerica $1½	4	11'85	–	–	–
Ap Jly Oc Jan	Bankers N.Y. $10	14¾	26.3	$1.66	–	6.2
Ja Ap Jy Oct	BASIX Corp	88p	18.6	12c	–	7.5
My Au N Fb	Bell Atlantic $1	35	25.9	$3.84	–	6.0
–	BellSouth Corp	19	7.7	$2.20	–	6.3
Mar Jun S D	♥Bethlehem Steel $8	8⅝	4.11	–	–	–
–	Bio–Rad Labs. Inc. "A"	640p	–	–	–	–
Oc Ja Ap Jy	Bowater Inc	14¾	5.6	92c	–	3.4
Ja Ap Jly O	Browning–Ferris 16⅔c	13⅝xd	15.06	48c	–	1.9
F My Au N	Brunswick $0.75	7¼	21.10	30c	–	2.3
Jan Ap Jly O	CPC Intnl. 25c	21½xd	25.9	‡$1.24	–	3.2
Mr Jn Se De	CSX Corp U.S.$1.00	14⅝	19.8	$1.24	–	4.7
Mr Jn Sp Dc	CalFed Inc $1.00	10⅞	11.8	$1.20	–	6.0
Oc Ja Ap Jy	Campbell Soup 30c	29⅝	13.00	$1.68	–	3.1
F My Au N	Caterpillar Inc $1.00	32⅛xd	15.7	50c	–	0.9
Fb.My.Ag.Nv.	Chase Manhattan $12.5	12⅝xd	27.09	$2.16	–	9.6
Ap Jy Oc Ja	Chemical New York	13xd	10.11	$2.72	–	11.5
Mar Jun S D	Chrysler $6¼	11⅛xd	10.12	♦$1.00	–	4.8
My Au N F	Citicorp $1	9¼	27.4	$1.23	–	7.3
Fb My Ag Nv	CityFed Fin. Corp	173p	29.10	4c	–	1.3
F My Au N	Colgate–Palmolive $1	20⅝	21.10	$1.12	–	3.0
Fe My Au Nv	Cons Freightways $0.625	14½	03.01	82c	–	3.1
Dc.Mr.Jn.Sp.	Contl Illinois Corp $1	196pxd	02.11	8c	–	3.2
–	Cont. Illinois Hldgs $1	13½p	–	–	–	–
–	♥Corporate Data Scnce	116p	–	–	–	–
–	Cullinet Sftwr $0.1	252p	–	–	–	–
–	Dawson Oil 40c	12p	5'82	–	–	–
Mr Jn Se De	Dana Corp. $1	15⅜	21.8	$1.44	–	5.1
–	Data General	11¼	–	–	–	–
–	♥Datum–Lock Medical	65p	–	–	–	–
Mr Jn Sp Dc	Dun & Bradstreet $1	27	17.8	$1.50	–	3.0
F My Au N	Eaton Corpn. 50c	41⅛xd	29.4	$2.00	–	2.6
MrJnSepDec	FPL Group $0.01	15¼	26.8	$2.12	–	7.6
Jan Apr Jly O	First Chicago $5	10⅛xd	3.3	$1.50	–	8.2
Mar Jun S D	Ford Motor $2	39⅜	28.09	$3.00	–	4.1
Mar Jun S D	GATX 62½c	19⅝xd	10.12	$1.50	–	4.2
April Oct	Gen. Elect. $0.63	23¼xd	9.6	$1.40	–	3.3
–	♥General Host Corp $1	415p	–	28c	–	2.9
Mar Jun S D	Gillette $1	16⅛	29.10	76c	–	2.6
Fb.My.Aug.Nv.	Gt Am First Sygs Bk $1	609pxd	27.10	♦60c	–	5.4
Ja Ap Jy Oc	Greyhound $1.50	13	3.3	$1.26	–	5.3
Ja No Au My	Hasbro Inc $0.50	605p	13.09	9c	–	0.8
Jan Mar Jn De	Home Group $1	5¾	27.8	20c	–	1.9
Mar Jun S D	Honeywell $1.50(B)	28⅜	25.8	$2.10	–	4.0
No Au Ap Ja	Hospital Corp Am $1	16⅛xd	29.9	72c	–	2.4
–	Houston Inds.‖	16	11.8	$2.88	–	9.9
Mar Jun S D	IBM Corpn $1.25	68⅞xd	6.11	$4.40	–	4.0
Ap Jy Oc Ja	IC Industries	15⅞xd	8.12	88c	–	3.0
Ja Ap Jy Oc	ITT Corpn. $1	23⅜	16.10	$1.00	–	2.5
–	Image StorageR.Sys.1c	83p	–	–	–	–
Mar Jun S D	Ingersoll–Rand $2	17⅛xd	18.5	$1.04	–	3.3
Fb Ap Ag Nv	Insilco $1	810p	06.09	$1.00	–	6.7
Mar Jun S D	IU Intnl. $1.15	6	11.10	60c	–	5.5
Mar Jun S D	Lockheed Crpn. $1	18xd	14.07	$1.40	–	4.3
May Au N Mar	Lone Star Inds $1	10⅝xd	2.3	$1.90	–	9.8
Mar Jun S D	Louisiana Land $0.15	15⅜xd	26.8	$1.00	–	3.6
Jan Ap Jly Oc	Lowe's 50c	864pxd	13.09	44c	–	2.8
Jan Ap Jly Oc	Manuf. Hanover $7½	14⅜xd	26.6	$3.28	–	12.4
Feb My Au N	Merrill Lynch $1	10⅞xd	13.00	$1.00	–	5.0
–	Molex Inc	17¼	–	2c	–	–
Jan Ap Jly O	Morgan (JP) $2.5	16⅝xd	13.00	$1.38	–	4.4
F May Au N	NYNEX $1	34	26.3	‡$3.48	–	5.6
Ja Ap Jy Oct	PHH	15	6.10	$1.08	–	3.9
Ap Jy Oc Ja	Pac Gas & Elect $5	871p	10.12	$1.92	–	12.0
Feb My Ag Nv	Pacificorp $3.25	17⅛	15.10	$2.52	–	8.1
–	Pacific Telesis $0.10	14	12'85	‡$1.64	–	6.4
Fe My Au No	Pall Corp. 25c	13⅝xd	13.7	34c	–	1.6
Mar Jun S D	Pennzoil 83(1/3)c	39⅜xd	26.8	$2.20	–	3.0
F Apr Au N	Pillsbury‖	16⅝	28.09	$1.12	–	3.7
–	Prentark Intl	11⅜xd	10.12	032c	–	1.6
–	Primerica $2.00	12⅛	06.09	$1.60	–	7.2
Jly Dc Jun Apr	Quaker Oats $5	23⅛xd	18.6	$1.00	–	2.4
My Jn Se De	RJR Nabisco Inc	25	05.10	$1.60	–	3.5

Continued on next page

Money Market Trust Funds

Money Market Bank Accounts

LONDON SHARE SERVICE

AMERICANS – Contd

Dividends Paid	Stock	Price £	Last xd	Div Gross	C'vr	Y'ld Gr's
Jan Apr Jly O	Rep NY Corpn $5	21¾xd	10.12	$1.16	–	2.9
Mr Jn Se De	Rockwell Intl $1	9	9.11	66c	–	4.0
Oc Ja Ap Jly	Sara Lee $1(1/3)	28xd	13.00	$1.00	–	3.0
Mr Ju Se De	Saul (B. F.) $1	8¾	10.9	20c	–	1.3
Fb My Ag No	Southwestern Bell $1	17⅞	7.7	H$2.32	–	7.2
–	Staley Continental	11⅛	–	80c	–	3.9
Mr Jn Se De	Sun Co. Inc. $1	27⅝	05.10	$3.00	–	5.9
Ma Ju Se De	TRW Inc. $0.625	23⅞xd	11.8	H$1.60	–	3.7
Mr Jn Sp Dc	Tenneco $5	22⅝xd	11.8	$3.04	–	7.4
June Dec	Do. 10pc Ln.Stk. 91–5	155xd	13.00	10%	–	f4.7
Mr Je Se De	Texaco $6.25	17⅞xd	31.7	$3.00	–	9.5
Mr Ju Se De	Time Inc. $1	39⅝xd	22.8	$1.00	–	1.4
Ja Ap Jy Oc	Tracor $0.33(1/3)	17⅛xd	16.9	40c	–	1.3
Ja Ap Ju Oc	Transamerica $1	16⅛xd	30.09	$1.84	–	6.3
Fe My Au No	Transworld Corp $5	816p	11.11	20c	–	1.3
Mc Je Se De	TRINOVA Corp	16¼	9.11	56c	–	1.9
Mr Je Se De	♦USX $1	16⅞	30.10	$1.20	–	4.0
Ag Nv Fb Jn	Union Carbide $1	11⅞xd	4.8	$1.50	–	7.3
Mr Ju Sp Dc	Utd. Technologies	17xd	19.5	$1.40	–	4.5
Fb My Ag No	US West ‖	26¼	13.4	$3.28	–	6.8
–	Waste Management $1	19⅝	–	–	–	–
–	Whirlpool $1.0	11⅝	–	–	–	–
Mr Je Se De	♦Woolworth $3½	17⅞	19.11	$1.32	–	4.2

CANADIANS

[illegible]

BANKS, HP & LEASING

[illegible]

BEERS, WINES & SPIRITS

[illegible]

BUILDING, TIMBER, ROADS

[illegible]

BUILDING, TIMBER, ROADS – Contd

[illegible]

CHEMICALS, PLASTICS

[illegible]

DRAPERY AND STORES

[illegible]

DRAPERY AND STORES – Contd

[illegible]

ELECTRICALS

[illegible]

ENGINEERING

[illegible]

ENGINEERING – Contd

[illegible]

FOOD, GROCERIES, ETC

[illegible]

HOTELS AND CATERERS

[illegible]

INDUSTRIALS (Miscel.)

[illegible]

INDUSTRIALS (Miscel.) – Contd

[illegible]

INDUSTRIALS (Miscel.) – Contd.

[illegible]

INSURANCES

[illegible]

LONDON SHARE SERVICE

INSURANCES — Contd

Dividends Paid	Stock	Price	Last xd	Div Net	C'vr	Y'ld Gr's	P/E
Oct. June	Pearl Group 5p	337	14.9	†10.5	—	4.3	—
Nov. May	Prudential	793	12.10	†29.0	—	5.0	—
Nov. May	Refuge 5p	390	14.9	15.75	—	5.5	—
Jan. May	Royal	377	28.9	†h15.5	—	5.6	—
—	Sentinel Ins. Invs.	75	—	—	—	—	—
April Oct.	Sedgwick Group 10p	203	14.9	12.0	1.7	8.1	8.7
May Nov	Steel Burrill J.10p	138	14.9	†9.0	2.8	8.9	7.7
Mar Sept	Sturge Hldgs 20p	318	27.7	†h6.0	2.5	2.6	20.8
Jan. July	Sun Alliance	775	26.10	†23.5	—	4.2	—
June Nov.	Sun Life 5p	[illegible]	28.9	†28.5	—	4.4	—
April	¶Taisho M EDR	[illegible]	25.5	q¥10½	—	0.9	—
Fb My Au Nv	Torchmark $1.00	£12⅝	13.09	Q$1.60	—	4.3	—
Nov. May	Trade Indemnity	357	28.9	†4.3	—	1.6	—
Ma Ju Se De	Travelers $1.25	£17¾	28.7	$2.28	—	7.4	—
—	USF & G Corp $2.50	£16	22.08	Q$2.48	—	8.5	—
Dec. June	USLIFE Corp. $1.0	£16	04.10	Q$1.28	5.2	4.4	7.1
June Nov	Wiss Friendly B 10p	570	12.10	21.0	—	5.4	—
May Nov	Willis Faber 12½p	283	28.9	†10.75	2.4	7.3	7.7
Mar. July	Windsor Secs. 10p	60	22.12	†0.7	1.5	1.6	—

LEISURE

Dividends Paid	Stock	Price	Last xd	Div Net	C'vr	Y'ld Gr's	P/E
October	A & M Group 10p	13	11.0	—	—	—	—
—	Airsports 10p	80	—	L4.4	♦	9.8	♦
May Aug.	Anglia TV	269	29.6	†h11.25	3.3	5.7	7.5
—	Aspinall Hldgs. 10p	140	29.2	†6.0	1.2	5.1	21.9
—	Avesco 1p	76	13.7	0.5	6.7	1.0	19.8
—	BCE Hldgs 5p	47	10.8	L4.0	♦	2.9	♦
July Nov	Barr & W.A.T. 'A'	185	29.9	†8.0	1.4	5.9	15.1
—	Bond Media	24		—	—	—	—
—	Boosey & Hawkes	172	4/84	—	—	—	—
—	Border T.V.	42	14.9	1.4	♦	4.4	♦
June Dec	Brent Walker 10p	261	9.11	†h8.5	2.2	5.2	12.6
—	Do 6pc.Cv.Cm.Rd.Pf.	92	—	6.0	—	9.0	—
Mar. Nov.	Campari Int. 20p	177	14.9	†3.0	5.3	2.3	9.3

[illegible]

MOTORS, AIRCRAFT TRADES

[illegible]

Commercial Vehicles

[illegible]

Components

[illegible]

Garages and Distributors

[illegible]

NEWSPAPERS, PUBLISHERS

[illegible]

PAPER, PRINTING, ADVERTISING

[illegible]

PAPER, PRINTING, ADVERTISING — Contd

[illegible]

PROPERTY

[illegible]

SHIPPING

[illegible]

SHOES AND LEATHER

[illegible]

SOUTH AFRICANS

[illegible]

TEXTILES

[illegible]

TEXTILES — Contd

[illegible]

TOBACCOS

[illegible]

TRUSTS, FINANCE, LAND

Investment Trusts

[illegible]

TRUSTS, FINANCE, LAND — Contd

[illegible]

Finance, Land, etc

[illegible]

OIL AND GAS

[illegible]

OIL AND GAS — Contd

[illegible]

OVERSEAS TRADERS

[illegible]

PLANTATIONS

Rubbers, Palm Oil

[illegible]

Teas

[illegible]

MINES

Eastern Rand

[illegible]

Far West Rand

[illegible]

O.F.S.

[illegible]

Diamond and Platinum

[illegible]

Central African

[illegible]

Finance

[illegible]

Australians

[illegible]

MINES — Contd

[illegible]

Tins

[illegible]

Miscellaneous

[illegible]

THIRD MARKET

[illegible]

NOTES

[illegible]

REGIONAL & IRISH STOCKS

[illegible]

IRISH

[illegible]

TRADITIONAL OPTIONS

3-month call rates

[illegible]

THE INFORMATION EDGE

How Royal stormed into a new technological age

Alan Cane begins a regular look at the way companies are integrating information technology into their operations and are exploiting the consequent advantage

THE ILL WINDS which devastated the south-east of Britain in the middle of October this year cost Royal Insurance UK of Liverpool some £80m in settled claims; but they also blew it a unique opportunity to test the effectiveness of an innovation which it is now convinced will be a major factor in its future competitiveness.

The innovation itself, a novel, US-built computer system, hardly seems the thing to set pulses racing these days, yet the glimpse of its potential seen in the aftermath of the storm was enough to have Peter Duerden, Royal's managing director, publicly enthusing about its capabilities in the weeks that followed.

Andrew Campbell-Hart, general manager for corporate services and a member of Royal's board, endorses his chief's view: "It seems to offer quite significant advantages over any other approach we have considered," he says.

Why should a new computer system, however powerful, arouse so much enthusiasm in the senior ranks of the Royal? After all, executives in many financial services companies these days are expressing disappointment in the returns they get from their investment in data processing.

It is important, first of all, to understand that the insurance business is changing rapidly and that the Royal is determined to stay ahead of the game.

It is already one of Britain's leading insurers with over 4m accounts spread across all classes of general insurance; it has special strengths in household, personal motor, commercial property, motor fleet and engineering.

In a tough period for insurers generally, it is doing well. Last year, its pre-tax profits were £95.5m on £862m of premiums written.

But its senior executives are well aware that the structure of the business is changing profoundly, driven, as Duerden describes it, by a combination of increasingly sophisticated demands from its customers, new competition resulting from changes in legislation and novel opportunities for transacting business in new ways through technology.

That awareness gave rise last year to a thorough review of company policy leading to a strategy Duerden calls "Staying Ahead".

The essence of the strategy is that the company has to move closer to the people who are the main source of its revenues - the brokers, agents and other intermediaries who are its business "channels", funnelling business to the company from the public, the ultimate customer.

In order to manage this "channel focus" better, Royal set out to devolve management power and responsibility, creating twelve separate regions covering the country, each with its own management team.

But this decision created a problem which could only be solved by the imaginative use of information technology – how to give the regional managers the information they needed to do their job properly.

Success in the insurance business depends on a profound knowledge of the market – so that risk can be accurately assessed – and the ability to move quickly when circumstances change.

It would be critical, for example, for a regional manager to know quickly if a particular class of insurance was proving unprofitable and why. To know, in fact, if any factor or group of factors was changing the nature of the market.

To take a specific case, a particular model of motor car might eventually prove to have a peculiarity which could lead to a higher than average level of claims. Insurers need to know that kind of thing quickly - and preferably ahead of the competition.

All the data are, in fact, locked up in an insurance company's computer files, but the problem is how to let the managers on the ground get at them easily, so that they can be helped in their own decision making and to give their business channels an edge over the competition.

The Royal has an impressive and efficient computer centre housing two large IBM mainframe computers. By most standards, it is technologically advanced; a few years ago it established a major telecommunications network to support some 2,000 terminals in 70 locations around the country.

One option open to the company was to provide each region with a stripped-down version of the master computer file; that was rejected because distributing data in that way can result in horrendous organisational problems - ensuring, for example, that data is consistent across the company means expensive technical support at each centre. The whole idea is fraught with risk.

The problem, therefore, was how to provide fast, accurate information to managers in a decentralised organisation from a centralised set of computer files.

Royal has over 4m records. Conventional file searching technologies start to creak at half that number. Skilled technicians have to be called in to carry out the programming and its takes computers a long time to work through the files using conventional memory management techniques.

So something radically different had to be found if Royal managers were not to wait hours – or days – for answers to simple queries.

Rod Hooson, Royal's information manager, reviewed a raft of alternatives before opting for a computer system from Teradata, a young US-based company, whose machine combined three of the most sophisticated computing techniques available today – parallel processing, relational database management and fourth generation languages (see accompanying panel).

Virtually unknown in Europe, Teradata has a series of prestigious clients in the US including Citibank and AT&T.

The Teradata machine installed in Citibank's New York offices comprises 128 microprocessors working together to give a power equal to 130m instructions a second. When complete, experts say, it will be the most powerful computer ever built for business data processing.

Although hardly on that scale, the Royal machine is worth around £500,000. What it offers is the capacity to give responses quickly and in easily understandable form to the kind of questions managers want answered. Hooson, who is an unusual appointment in that he is a technician by training rather than an insurance man, points out: "These regional managers have profit responsibility. They have to have access to the information in their own way and at a time of their choosing."

The machine was delivered in July and the company began work establishing a pilot project, based, Campbell-Hart says, on the Royal's private motor insurance files.

Work began on loading all the data – mundane matters like the number of branches operated by the company – into the Teradata preparatory to initiating the project. Then came the October storm.

The following morning, the team working on the pilot reasoned that the machine could be used to help with the inevitable flood of claims expected after the winds had done their worst.

Overnight, with the help of Teradata technicians, the appropriate files were loaded into the new computer. As the claims started to come in, several thousand a day, they were fed directly into the Teradata.

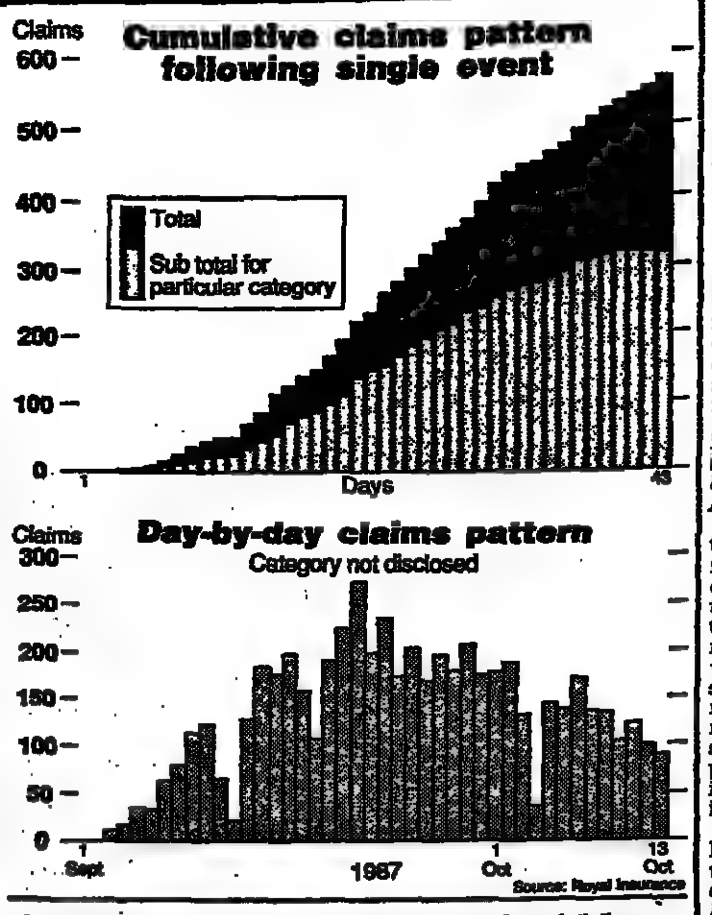
Within hours it was printing out graphs and charts giving the company a good idea of the progress of the claims, the average size of claim and estimates of likely total exposure.

Hooson is quick to make it clear that all that information could have been dug out of the files using traditional methods but with greater difficulty: "We would have had to work harder to get the same information," he says.

Where the new system is at its best is in giving new views of old data. Although the pilot is only five months old, Hooson says: "We are already starting to get fresh insights into the make-up of the portfolio. The system gives us the ability to home in on particular points when a first cut provokes questions in your mind."

It is too early to claim unqualified success for Royal's initiative; but based on the October storms experience, everybody at the company's Liverpool head office believes it has a winner.

Peter Duerden, managing director (left), and Andrew Campbell-Hart, general manager, corporate services, of Royal Insurance UK: set out to give regional managers the information they needed following devolvement of management power and responsibility



Royal Insurance UK's latest computer system makes statistics as detailed as these readily available. Previously, it would have been extremely difficult and time-consuming to obtain such figures

THE TERADATA computer is, technically, a multiprocessing relational database machine. It combines a number of microprocessors operating in parallel to give processing capacities equivalent to, or greater than, conventional mainframes.

The company claims to have solved the problem common to such computers that as each additional processor is added, the power rises by less than a full processor's worth.

Teradata says it achieves a virtually linear increase in power up to 128 processors running together.

Relational database management is the most advanced method of handling information available today.

Where information held in the system is related, that relationship can be explicitly demonstrated.

Royal Insurance, for example, might be interested in relating a particular make of car to a particular kind of claim.

There are a number of relational databases available as computer software – Ingres, Oracle and IBM's DB2 are examples, but the Teradata computer is one of only a very few relational database machines.

One example is manufactured by Britton-Lee of the US, but it is smaller in capacity than the Teradata.

As an IBM "shop", the Royal tested DB2 before opting for Teradata. Figures from the US suggest that it costs $5 to answer a complex query using Teradata compared with $95 for IBM running DB2.

The final key to the power of the Teradata machine is the use of what is called a "fourth generation language" to write programs for it.

Fourth generation languages use English like commands to produce programs that the computer can understand.

Teradata uses a fourth generation language called "Intellect".

Programs written in Intellect have a natural flavour about them – "Give me all the claims between October 14 and October 31 divided into storm claims and others", for example.

Intellect communicates with the relational database software embedded in the machine to give the answers in a form managers can understand - graphs, charts or simple tables, rather than the acres of printout provided by mainframe systems.

Management abstracts

The competitive bidding process, *by P D Boughton in Industrial Marketing Management (US), May/June 87 (3½pages)*

From a survey of contractors in the construction industry, reviews factors they consider important in developing a bidding strategy, with company-specific features, such as clearness and detail of specification, heading the list.

Information system subversion: a life-cycle perspective, *by E H Rachlin in Information Age (UK), Jul 87 (4 pages)*

Identifies the security risks at the different stages of an information system's life cycle, from design to decommission, showing that the development and acceptance phases are the most vulnerable for the insertion of subversive hardware and/or software devices. Asserts that most effort is made to stop information being retrieved from the system, when it would be best to prevent – in the first place – the insertion of those devices for the illegal gathering of information.

Every manager is an information systems manager now, *by G M Hoffman in Information & Management (Netherlands), Dec 86 (6½ pages)*

Argues that, as soon as any small computerised system is introduced into a department, the manager of that department acquires the responsibilities of an information systems manager, in the sense of selection and justification of new systems, operations, telecommunications, technical support, and personnel management. Examines the elements of each, alerting the manager to the hidden costs of microcomputer systems, security and disaster recovery requirements, the complexities of local area networks, and the need for training.

Sex differences in career management, *A Pazy in Human Resource Management (US), Summer 87 (13½ pages)*

From a survey, suggests that women are more responsive than men to formal career management and attain maximum effectiveness (perhaps higher than men's) in terms of performance, attitudes, identity and adaptability. On the other hand, shows that women are less effective than men at behaving tactically and playing politics; argues that they must learn how to cope in this area if they are to realise their full potential.

These abstracts are condensed from the abstracting journals published by Anbar Management Publications. Licensed copies of the original articles may be obtained at a cost of £4 each (including VAT and p+p; cash with order) from Anbar, PO Box 23, Wembley HA9 8DJ.

WORLD STOCK MARKETS

AUSTRIA / BELGIUM/LUXEMBOURG / DENMARK / FINLAND / FRANCE / GERMANY / ITALY / NETHERLANDS / NORWAY / SPAIN / SWEDEN / SWITZERLAND / SOUTH AFRICA / JAPAN / AUSTRALIA / HONG KONG / SINGAPORE

[illegible]

NOTES – Prices on this page are as quoted on the individual exchanges and are last traded prices. [illegible] Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all. * Price in Kroner

CANADA

TORONTO

Closing prices December 11

Sales	Stock	High	Low	Close	Chng
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

MONTREAL

Closing prices December 11

Sales	Stock	High	Low	Close	Chng
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

OVER-THE-COUNTER *Nasdaq national market, Closing prices, December 11*

Continued from Page 37

Stock	Sales (Hnds)	High	Low	Last	Chng
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

INDICES

NEW YORK — DOW JONES

	Dec. 11	Dec. 10	Dec. 9	Dec. 8	1987 High	1987 Low	Since compilation High	Since compilation Low
◆Industrials	1867.04	1855.44	1902.52	1868.37	2722.42 (25/8)	1738.42 (19/10)	2722.42 (25/8/87)	41.22 (2/7/32)
Home Bonds	85.98	86.05	86.41	86.43	95.51 (9/2)	81.26 (19/10)	–	–
Transport	699.00	692.86	707.43	699.86	1101.16 (14/8)	661.00 (4/12)	1101.16 (14/8/87)	12.32 (8/7/32)
Utilities	175.42	174.79	177.81	177.34	227.83 (22/1)	160.98 (19/10)	227.83 (22/1/87)	10.50 (8/4/32)

◆Day's High 1887.93 (1925.57) Low 1830.36 (1835.71)

STANDARD AND POOR'S	Dec. 11	Dec. 10	Dec. 9	Dec. 8	1987 High	1987 Low	Since compilation High	Since compilation Low
Composite ‡	235.32	233.57	238.89	234.91	336.77 (25/8)	223.92 (4/12)	336.77 (25/8/87)	4.40 (1/6/32)
Industrials	271.15	269.34	275.16	269.87	393.17 (25/8)	255.43 (4/12)	393.17 (25/8/87)	3.62 (21/6/32)
Financials	20.43	20.42	21.04	20.75	32.43 (25/8)	20.39 (7/12)	32.43 (25/8/87)	8.64 (1/10/74)
NYSE Composite	131.79	132.07	133.56	131.42	187.99 (25/8)	125.91 (4/12)	187.99 (25/8/87)	4.46 (25/4/42)
Amex Mkt. value	262.72	261.04	261.20	256.57	365.01 (13/8)	231.90 (4/12)	365.01 (13/8/87)	29.31 (9/12/72)
NASDAQ OTC Comp	302.57	300.88	301.96	297.96	455.26 (26/8)	291.90 (28/10)	455.26 (26/8/87)	54.87 (31/10/72)

[illegible]

TRADING ACTIVITY

[illegible]

CANADA

[illegible]

NEW YORK ACTIVE STOCKS

[illegible]

AUSTRALIA / AUSTRIA / BELGIUM / DENMARK / FINLAND / FRANCE / GERMANY / HONG KONG / ITALY / JAPAN / NETHERLANDS / NORWAY / SINGAPORE / SOUTH AFRICA / SPAIN / SWEDEN / SWITZERLAND / WORLD

[illegible]

Closing prices, December 11

NEW YORK STOCK EXCHANGE COMPOSITE CLOSING PRICES

12 Month High	12 Month Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
25⅝	14	AAR s	.36	2.3	14	110	15½	14¾	15½	+⅝
32½	19	AFG s	.16	.7	8	126	23½	23⅛	23⅜	−⅜
27	10½	AGS s			12	112	13⅝	13	13⅜	
10½	6¼	AMCA				4	6½	6½	6½	−⅛
9⅜	3¼	AM Intl			31	1292	4⅜	4⅛	4⅜	−¼
65½	26¾	AMR			8	3603	29⅝	28¾	29⅛	−⅛
12¼	6⅜	ARX s			7	220	7	6⅞	7	
73½	35⅛	ASA	2a	3.8		975	53	51⅞	53	+⅝
22⅜	9½	AVX			16	108	12¼	12⅛	12¼	
67	40	AbtLab	1	2.2	17	3830	45½	44¾	44⅞	−⅜
28	15⅝	Abitibi g				170	18¾	18½	18¾	+⅜
16¾	8½	AcmeC .40		4.0	14	114	10⅛	10	10	
10½	6⅛	AcmeE .32b		4.6	24	10	7	7	7	
20	14⅛	AdaEx 3.34e		22.		59	15⅛	15	15	−¼
19½	6⅞	AdmM s .24		2.9	6	102	8½	8¼	8¼	
35	16⅜	AdvSys			12	454	26½	26	26¼	
24⅞	7½	AMD				2098	9½	9⅛	9⅜	+⅛
56¾	29¾	AMD pf	3	10.		19	31	30⅝	30⅝	−⅞
11⅞	4⅜	Adobe				261	5⅜	5⅛	5¼	−¼
20½	15½	Adob pf 1.84		11.		3	17¼	17¼	17¼	+¼
21⅞	17	Adob pf 2.40		12.		46	19¾	19¾	19¾	+¼
15	6⅞	Advest .12e		1.6	6	95	7¾	7⅝	7⅝	
68¼	43⅞	AetnLf 2.76		6.3	6	1880	44⅞	d43¾	44⅛	
63½	33¼	AfilPb s .40		.9	7	238	45	44¼	44¾	+¼
26⅞	13⅛	Ahmans .88		6.6	6	1116	13⅝	d13	13¼	+⅛
[illegible]										

Continued on Page 37

NYSE COMPOSITE CLOSING PRICES

Continued from Page 36

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close	Ch'ge
30⅝	14½	Wynns	.80	3.8	12	24	[illegible]	15½	15¾	+⅛
		X Y Z								
55	50	Xerox	3	5.5	12	1054	54⅝	54	54⅛	+½
58¼	52½	Xerox pf5.45		10.		324	52⅞	52⅝	52⅞	+¼
31½	16⅛	XTRA	.64	3.2	15	205	20¼	19⅝	19⅞	+⅜
28¼	19½	XTRA pf1.94		9.7		19	20½	20	20	−⅛
33⅞	18⅛	Yorkin			9	126	23	22½	22⅝	+⅛
7¼	2⅜	Zapata				634	2¾	2⅝	2¾	
37	13½	Zayre	.40	2.8	5	1436	14⅝	14	14¼	+⅛
18⅛	9¼	Zemex	.40	4.2	8	23	9½	9½	9½	+⅛
33⅝	10	ZenithE				960	14⅝	13⅞	14⅛	+¼
13½	2¾	ZenLab				930	3	2¾	2¾	−⅛
25½	13½	ZenNt	.80	5.2	7	113	16¼	16	16¼	+¼
20⅝	11⅝	Zero	.36	2.5	14	389	14¼	13½	14⅛	+⅞
30¾	15	Zurnin s	.68	4.0	11	175	17	16⅝	17	+⅜
10⅝	7⅝	Zweig	.92e	11.		549	8½	8⅜	8½	

Sales figures are unofficial. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 per cent or more has been paid, the year's high-low range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividends are annual disbursements based on the latest declaration.

a-dividend also extra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months. g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E-price-earnings ratio. r-dividend declared or paid in preceding 12 months, plus stock dividend. s-stock split. Dividends begin with date of split. sls-sales. t-dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-divident or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in full. yld-yield. z-sales in full.

AMEX COMPOSITE CLOSING PRICES

Closing prices, December 11

OVER-THE-COUNTER

Nasdaq national market, Closing prices, December 11

Continued on Page 35

FOREIGN EXCHANGES

Strong growth may put pressure on sterling and interest rates

BY COLIN MILLHAM

THERE IS no justification at present for another cut in UK bank base rates, according to Mr Kevin Boakes, chief UK economist at Greenwell Montagu Research.

London economists generally agree the international situation may lead to lower British interest rates, but domestically there is nothing to suggest such a move.

A long string of UK economic data will be released this week, but Mr Boakes warns against reading too much into the figures.

The market will regard this as the first comprehensive guide to economic performance since the October fall in share prices, but the overall picture is likely to be confusing.

November retail sales should be strong. Greenwell Montagu expects a rise of 1.75 p.c., compared with 0.8 p.c. in October, but sees this as partly a reaction to lower mortgage rates and to a build up of consumer demand ahead of Christmas.

Nomura Research Institute also forecasts a high figure of 1.6 p.c., but other forecasters are looking for a lower figure, ranging down to 0.7 p.c. at Morgan Grenfell.

Mr Mark Cliffe, economist at Nomura Research Institute, says this week will see the market trying to decide whether there has been any impact on the real economy from the fall in equity prices.

He expects there to be little sign of any softening in the UK economy, and points out that recent evidence suggests gross domestic product is growing at least twice as fast as Britain's main competitors.

Mr Stephen Hannah, chief UK economist at County NatWest, looks for violent swings in gilts, as talk of recession wanes and long term interest rates rise sharply. He adds that inflation nerves are likely to be kept on edge as price data continue to reflect over heating built up before the crash in share prices. Mr Hannah foresees a further sharp decline in equity prices during the new year.

Mr Cliffe at Nomura also forecasts a further fall in share prices during the next few months.

Friday's figures on November UK bank lending will probably be high, reflecting demand from investors in the wake of the Stock Exchange crash. Forecasts range from $2.7bn at Morgan Grenfell to $3.5bn at County NatWest, and James Capel. October's figure was £2.9bn.

Mr Boakes expects lending to the financial sector to fall next year, reflecting a deterioration of confidence following falls in equity prices. Personal borrowing is unlikely to slow however until there is evidence the sharp rise in house prices has been reversed.

He suggests 9 p.c. is a sensible level for bank base rates. The present rate of 8½ p.c. was dictated by international factors. Similar events may produce a further cut to 8 p.c., but in the longer term it appears that Britain's relatively strong growth rate will suck in growing numbers of imports, depressing sterling and reversing the downward trend in interest rates.

£ IN NEW YORK

Dec 11	Close	Previous Close
£ Spot	1.8375-1.8385	1.8265-1.8275
1 month	0.02-0.01pm	0.03pm-par
3 months	0.18-0.17pm	0.28-0.24pm
12 months	1.19-1.14pm	1.18-1.08pm

Forward premiums and discounts apply to the US dollar

STERLING INDEX

	Dec 11	Previous
8.30 am	76.2	75.8
9.00 am	76.1	75.8
10.00 am	76.1	75.8
11.00 am	76.1	75.8
Noon	76.1	75.8
1.00 pm	76.1	75.8
2.00 pm	76.1	76.0
3.00 pm	76.1	76.1
4.00 pm	76.1	76.0

CURRENCY RATES

Dec 11	Bank rate %	Special Drawing Rights	European Currency Unit
Sterling	-	0.75314	0.688301
U.S Dollar	6½	1.3832	1.26441
Canadian $	8.75	*	1.64841
Austrian Sch.	3	15.8869	14.5205
Belgian Franc	7	47.2831	43.2270
Danish Krone	7½	8.7014	7.95313
Deutsche Mark	2½	2.2566	2.06352
Neth.Guilder	3¼	2.54016	2.32133
French Franc	9½	7.6665	7.00609
Italian Lira	12½	n/a	1523.61
Japanese Yen	2½	177.60	162.477
Norway Krone	8	8.79268	8.04354
Spanish Peseta	-	n/a	139.338
Swedish Krona	7½	n/a	7.50174
Swiss Franc	2½	n/a	1.68103
Greek Drach.	20½	178.634	163.400
Irish Punt	-	0.84939	0.776473

C$/SDR rate for Dec 9,1.78467

CURRENCY MOVEMENTS

Dec 11	Bank of England Index	Morgan Guaranty Changes %
Sterling	76.1	-17.7
U.S Dollar	98.8	-12.5
Canadian Dollar	76.8	-10.5
Austrian Schilling	142.7	+10.9
Belgian Franc	101.5	-4.4
Danish Krone	94.5	+3.0
[illegible]	[illegible]	[illegible]

Morgan Guaranty changes: average 1980-1982=100. Bank of England Index (Base Average 1975=100).

OTHER CURRENCIES

[illegible]

EMS EUROPEAN CURRENCY UNIT RATES

	Ecu central rates	Currency amounts against Ecu Dec 11	% change from central rate	% change adjusted for divergence	Divergence limit %
Belgian Franc	42.4582	43.2270	+1.81	+0.96	±1.5344
Danish Krone	7.85212	7.95313	+1.29	+0.44	±1.6404
German D-Mark	2.05853	2.06352	+0.24	-0.61	±1.0981
French Franc	6.90403	7.00609	+1.48	+0.63	±1.3674
Dutch Guilder	2.31943	2.32133	+0.08	-0.77	±1.5012
Irish Punt	0.768411	0.776473	+1.05	+0.20	±1.6684
Italian Lira	1483.58	1523.61	+2.70	+2.30	±4.0752

Changes are for Ecu, therefore positive change denotes a weak currency. Adjustment calculated by Financial Times.

POUND SPOT- FORWARD AGAINST THE POUND

[illegible]

DOLLAR SPOT- FORWARD AGAINST THE DOLLAR

[illegible]

† UK and Ireland are quoted in US currency. Forward premiums and discounts apply to the US dollar and not to the individual currency. Belgian rate is for convertible francs. Financial franc 34.35-34.45.

EURO-CURRENCY INTEREST RATES

[illegible]

EXCHANGE CROSS RATES

[illegible]

Yen per 1,000: French Fr. per 10: Lira per 1,000: Belgian Fr. per 100.

FORWARD RATES AGAINST STERLING

	Spot	1 mth	2 mths	6 mths	12 mths
US Dollar	1.8380	1.8379	1.8364	1.8336	1.8285
D-mark	2.9975	2.9860	2.9616	2.9269	2.8582
French Fr.	10.168	10.167	10.166	10.165	10.163
Swiss Fr.	2.4450	2.4358	2.4173	2.3883	2.3265
Yen	236.00	235.14	233.61	231.10	226.42

LIFFE LONG GILT FUTURES OPTIONS

Strike Price	Calls-Last Mar	Calls-Last Jun	Puts-Last Mar	Puts-Last Jun
116	2.57	3.58	1.49	3.06
118	1.56	2.61	2.48	4.09
120	1.11	2.11	4.03	5.23
122	0.45	1.36	5.37	6.48
124	0.25	1.06	7.17	8.18
126	0.14	0.47	9.06	9.59
130	0.04	0.20	12.60	13.32
132	0.02	0.134	14.58	15.25

Estimated volume total, Calls 2254 Puts 1227
Previous day's open int: Calls 25477 Puts 11986

LIFFE US TREASURY BOND FUTURES OPTIONS

Strike Price	Calls-Last Mar	Calls-Last Jun	Puts-Last Mar	Puts-Last Jun
82	3.38	3.60	1.42	2.60
84	2.15	2.52	2.27	3.52
86	1.20	2.03	3.32	5.03
88	0.48	1.28	4.60	6.28
90	0.26	0.63	6.38	7.63
92	0.13	0.42	8.25	9.42
94	0.06	0.28	10.18	11.28
96	0.03	-	12.15	-

Estimated volume total, Calls 10 Puts 31
Previous day's open int: Calls 862 Puts 705

LIFFE FT-SE 100 INDEX FUTURES OPTIONS

Strike Price	Calls-Last Dec	Calls-Last Jan	Puts-Last Dec	Puts-Last Jan
15000	-	-	-	-
15250	-	-	-	-
15500	11.02	15.73	0.62	2.58
15750	8.95	-	1.05	-
16000	7.08	12.25	1.68	4.10
16250	5.43	-	2.53	-
16500	4.04	9.27	3.64	6.12
16750	2.92	-	5.01	-

Estimated volume total, Calls 0 Puts 21
Previous day's open int: Calls 49 Puts 167

LIFFE £/$ OPTIONS
£25,000 (cents per £1)

Strike Price	Calls-Last Dec	Calls-Last Jan	Calls-Last Feb	Calls-Last Mar	Puts-Last Dec	Puts-Last Jan	Puts-Last Feb	Puts-Last Mar
1.65	18.45	18.46	18.45	18.54	0.00	0.01	0.09	0.26
1.70	13.45	13.47	13.60	13.99	0.00	0.08	0.34	0.71
1.75	8.45	8.81	9.36	9.93	0.00	0.42	1.02	1.65
1.80	3.45	4.89	5.78	6.55	0.00	1.50	2.34	3.27
1.85	0.00	2.19	3.16	3.99	1.55	3.80	4.82	5.71
1.90	0.00	0.76	1.51	2.22	6.55	7.37	8.17	8.94
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

LONDON SE £/$ OPTIONS
£12,500 (cents per £1)

Strike Price	Calls-Last Dec	Calls-Last Jan	Calls-Last Feb	Calls-Last Mar	Puts-Last Dec	Puts-Last Jan	Puts-Last Feb	Puts-Last Mar
1.55	25.65	-	-	25.65	0.30	-	-	0.40
1.60	23.90	23.90	-	23.90	0.30	0.30	-	0.30
1.65	18.50	18.90	-	18.90	0.30	0.30	-	0.50
1.70	13.70	13.90	13.90	14.40	0.30	0.35	0.55	0.70
1.75	8.90	8.90	9.90	11.15	0.35	0.85	1.45	1.90
1.80	3.80	5.25	6.30	8.10	0.35	1.85	2.70	3.40
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

PHILADELPHIA SE £/$ OPTIONS

[illegible]

LIFFE- EURODOLLAR OPTIONS

[illegible]

LONDON

[illegible]

CHICAGO

[illegible]

CURRENCY FUTURES

[illegible]

LIFFE-STERLING £25,000 $ per £

	Close	High	Low	Prev.
Dec	1.8345	-	-	1.8259
Mar	1.8328	-	-	1.8236
Jun	1.8300	-	-	-

Estimated volume 0(12)
Previous day's open int. 178 (180)

EUROPEAN OPTIONS EXCHANGE

[illegible]

TOTAL VOLUME IN CONTRACTS : 30,359

A=Ask B=Bid C=Call P=Put

BASE LENDING RATES

[illegible]

● Members of the Accepting Houses Committee. * 7 day deposits 3.50% Sewise 6.16%. Top Tier-£2,500+ at 3 months' notice 7.81%. At call when £10,000+ remains deposited. § Mortgage base rate. § Demand deposit 3.49%. Mortgage 10%-10.25%

FT-ACTUARIES WORLD INDICES

Jointly compiled by the Financial Times, Goldman, Sachs & Co., and Wood Mackenzie & Co. Ltd., in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS — Figures in parentheses show number of stocks per grouping	FRIDAY DECEMBER 11 1987 US Dollar Index	Day's Change %	Pound Sterling Index	Local Currency Index	Gross Div. Yield	THURSDAY DECEMBER 10 1987 US Dollar Index	Pound Sterling Index	Local Currency Index	DOLLAR INDEX 1987 High	1987 Low	Year ago (approx)
Australia (89)	93.52	+0.1	75.44	87.18	4.68	93.44	75.68	88.14	180.81	85.36	97.79
Austria (16)	92.71	-0.1	74.78	78.74	2.65	92.77	75.14	79.09	102.87	85.53	93.79
Belgium (48)	96.56	-2.6	77.88	81.91	5.77	99.16	80.32	84.37	134.89	94.63	95.31
Canada (127)	107.09	+1.5	86.39	101.28	3.07	105.47	85.42	99.70	141.78	98.15	99.92
Denmark (38)	112.74	-0.7	90.94	96.41	3.05	113.59	92.00	97.72	124.83	98.18	96.42
France (121)	81.52	+1.6	65.76	70.75	3.74	80.23	64.98	69.94	121.82	77.39	101.28
West Germany (93)	74.99	-0.8	60.49	63.61	2.98	75.56	61.20	64.28	104.93	68.91	95.74
Hong Kong (46)	77.34	-1.4	62.39	76.96	6.40	78.45	63.54	78.26	158.68	73.92	95.96
Ireland (14)	95.52	+1.8	77.05	82.68	5.45	93.81	75.98	81.60	160.22	93.50	96.23
Italy (94)	76.19	-2.0	61.46	68.45	2.78	77.73	62.95	70.12	112.11	72.04	90.17
Japan (457)	144.26	-0.4	116.36	117.13	0.59	144.89	117.35	118.52	161.28	100.00	97.82
Malaysia (36)	98.10	-1.1	79.13	93.70	3.83	99.23	80.37	95.16	193.64	93.76	98.86
Mexico (14)	114.60	+2.1	92.44	280.05	1.07	112.27	90.93	274.35	422.59	99.72	102.28
Netherland (37)	93.00	+1.4	75.02	77.89	5.76	91.68	74.25	77.06	131.41	87.70	97.91
New Zealand (20)	76.10	-2.0	61.38	63.04	5.33	77.69	62.92	64.53	138.99	75.09	95.72
Norway (24)	97.86	-1.8	78.93	84.58	3.23	99.64	80.70	86.25	185.01	95.51	100.13
Singapore (26)	84.31	-2.6	68.01	78.19	3.08	86.58	70.12	80.65	174.28	81.21	99.98
South Africa (61)	140.88	+2.6	113.63	92.63	4.57	137.31	111.21	91.66	198.09	100.00	99.45
Spain (43)	121.00	-0.7	97.60	101.07	4.06	121.91	98.74	102.38	168.81	100.00	94.22
Sweden (34)	93.86	-2.1	75.71	82.50	2.76	95.88	77.66	84.60	136.64	88.50	97.21
Switzerland (53)	78.49	-1.9	63.31	64.74	2.56	80.04	64.83	66.22	111.11	73.65	95.35
United Kingdom (332)	124.10	+2.5	100.11	100.11	4.62	121.04	98.04	98.04	162.87	99.65	94.28
USA (582)	95.69	+0.5	77.19	95.69	3.86	95.20	77.11	95.20	137.42	91.21	102.54
Europe (947)	98.72	+0.9	79.63	82.25	4.08	97.82	79.23	81.82	130.02	92.25	95.24
Pacific Basin (674)	139.78	-0.5	112.75	114.55	0.80	140.42	113.73	115.92	158.77	100.00	97.77
Euro-Pacific (1621)	123.39	+0.0	99.53	101.66	1.86	123.40	99.95	102.31	143.65	100.00	96.76
North America (709)	96.30	+0.6	77.68	96.03	3.81	95.75	77.55	95.47	137.55	91.68	102.40
Europe Ex. UK (615)	82.98	-0.5	66.93	71.04	3.58	83.42	67.56	71.68	111.97	78.89	95.84
Pacific Ex. Japan (217)	85.67	-0.7	69.10	80.78	5.16	86.28	69.88	81.98	164.03	82.92	97.10
World Ex. US (1823)	123.00	+0.1	99.22	101.69	1.93	122.93	99.56	102.26	143.38	100.00	96.91
World Ex. UK (2073)	111.30	+0.0	89.78	99.64	2.33	111.34	90.18	100.10	138.82	100.00	99.57
World Ex. So. Af. (2344)	112.25	+0.2	90.54	99.68	2.54	112.03	90.74	99.89	139.47	100.00	99.10
World Ex. Japan (1948)	97.19	+0.7	78.40	90.73	3.96	96.53	78.18	90.28	134.22	92.98	99.71
The World Index (2405)	112.43	+0.2	90.69	99.66	2.56	112.19	90.87	99.86	139.73	100.00	99.10

Base values: Dec 31, 1986 = 100

Constituent changes : Deletion ; Ind. & Commercial Bank (Singapore). Name change ; Oomeran CVA to Van Ommeren Ceteco.(Netherlands).

MONEY MARKETS

Guidance looked for on inflation

THERE ARE growing fears of overheating in the UK economy and a guide to inflationary pressure will be provided by today's producer prices for November.

There is a reasonable level of agreement among economists that output prices will rise 0.3 p.c. to 0.4 p.c., but Morgan Grenfell expects an increase of 1.2 p.c. in input prices, while James Capel sees a fall of 1 p.c.

UK clearing bank base lending rate 8½ per cent from December 4

Industrial production figures for October will be published tomorrow and are expected to indicate the UK economy remains reasonably buoyant. Greenwell Montagu is among the more pessimistic forecasts, expecting no change in overall production and a fall of 0.3 p.c. in manufacturing output.

Others are more optimistic however, with County NatWest looking for a rise of 0.5 p.c. in total production and manufacturing, and Morgan Grenfell forecasting an increase of 1.6 p.c. in both figures.

There is general agreement that the November public sector borrowing requirement, published Wednesday, will be negative. James Capel and Nomura Research Institute forecast a repayment of £1bn; County NatWest and Greenwell Montagu expect £1.2bn; while Morgan Grenfell looks for £1.8bn.

Fears about inflation may also be fuelled by Thursday's figures on October average earnings. County NatWest; James Capel; and Morgan Grenfell forecast an unchanged underlying level of 7¾ p.c., but Greenwell Montagu and Nomura expect a rise to 8 p.c.

FT LONDON INTERBANK FIXING

(11.00 a.m. Dec.11) 3 months US dollars		6 months US Dollars	
bid 8⅛	offer 8¼	bid 8⅛	offer 8¼

The fixing rates are the arithmetic means rounded to the nearest one-sixteenth, of the bid and offered rates for $10m quoted by the market to five reference banks at 11.00 a.m. each working day. The banks are National Westminster Bank, Bank of Tokyo, Deutsche Bank, Banque National de Paris and Morgan Guaranty Trust.

BANK OF ENGLAND TREASURY BILL TENDER

[illegible]

WEEKLY CHANGE IN WORLD INTEREST RATES

[illegible]

MONEY RATES

NEW YORK (4pm)

		Treasury Bills and Bonds			
Prime rate	8.75	One month	3.44	Three year	8.50
Broker loan rate	8-8¼	Two month	5.40	Four year	8.56
Fed.funds	6⅞	Three month	6.06	Five year	8.71
Fed.funds at intervention	6⅝-¾	Six month	6.80	Seven year	9.10
		One year	7.27	10-year	9.29
		Two year	8.03	30-year	9.46

Dec.11	Overnight	One Month	Two Months	Three Months	Six Months	Lombard Intervention
Frankfurt	3.00-3.10	3.40-3.75	3.50-3.65	3.50-3.65	3.55-3.75	4.50
Paris	8.1875	8.3125	8.4375	8.5625	8.75	7.75
Zurich	1.00	3.875	-	3.75	-	-
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

LONDON MONEY RATES

[illegible]

Company Notices

INTERMARKET FUND I

societe anonyme

2, boulevard Royal

Luxembourg

R.C. Luxembourg B 9822

Notice is hereby given that a general meeting of shareholders would be held at the registered office of the company on December 31st, 1987 at 10.00 a.m. with the following agenda:

- To hear the report of the board of directors and of the auditors;
- To approve the accounts of the corporation as at 31st March 1987;
- To discharge the members of the board of directors and the auditors in office with respect of their duties up to 31st March 1987;
- To elect or re-elect directors and auditors of the company;
- To decide upon the appropriation of the corporate results.

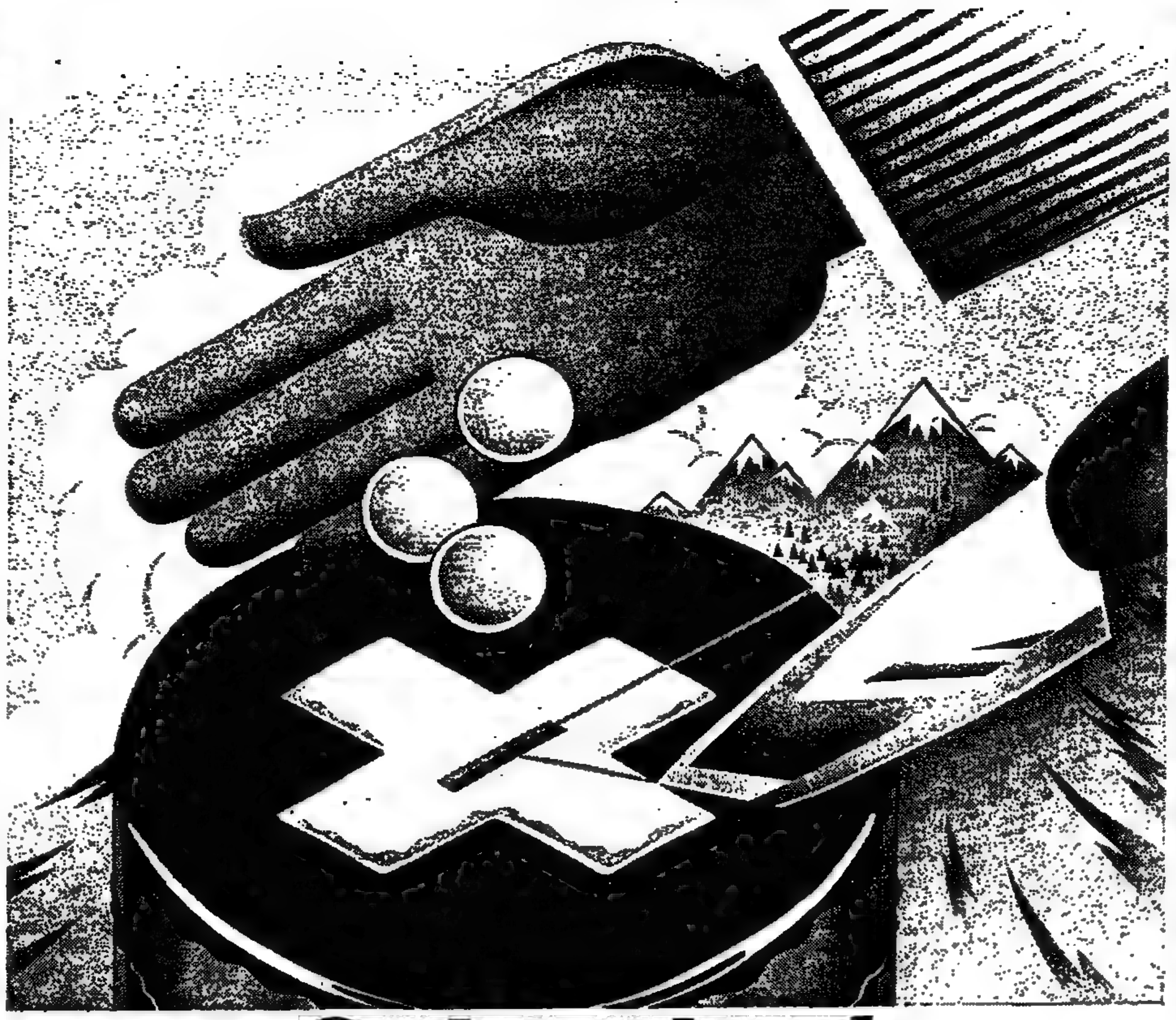
Shareholders are advised that no quorum is required for this general meeting of shareholders and that resolutions will be passed by a simple majority of the shares present or represented.

Shareholders are advised that the reports and accounts as well as proxy forms are available upon request at the offices of Banque Internationale a Luxembourg, 2, boulevard Royal, Luxembourg and Banque Arabe et Internationale d'Investissement, 12 Place Vendome, 75001 Paris.

SECTION III

FINANCIAL TIMES

SURVEY



Switzerland
BANKING AND FINANCE

CONTENTS

□ Graphic: Mark Thomas

Despite the stock market crash and traditionally cautious Swiss bankers' scepticism about the industrialised countries' ability to agree economic policies, William Dullforce sees continuing financial solidity as just one reason why banks are not retrenching.

Prudence and the fall

PRUDENCE PAYS in the long run...is surely the motto engraved on the heart of every true Swiss banker. Prudence was the message from the Big Three Swiss banks - Union Bank of Switzerland, Swiss Bank Corporation and Credit Suisse - at the beginning of the year, when with remarkable synchronism they decided not to raise shareholders' dividends in spite of a respectable growth in their reported profits for 1986.

That move earned them a sharp fall in the prices of their shares during the first half of the year. After the October stock market crash and the uncertainties it has generated about the world economy, their early caution appears as prescient.

Understandably, their public statements have continued to be guarded. They expect to report net profits for 1987 "close to" or "at least as high" as last year's (which analysts read as meaning a comfortable increase in real earnings), but they are forecasting harder times next year.

Their current caution is fed by considerable scepticism about the ability of the big industrialised countries to resolve their differences over economic policy. It also reflects uncertainty about what the stock market crisis portends for the asset management and commission-generating business, in which their strength lies.

Senior management at one Zurich bank has been instructed to ignore hopes for international economic co-operation in the near future and to plan for continuing instability on financial markets.

Swiss banks took some knocks from the stock market plunge. Difficulties at a couple of smaller banks, on which the Banking Commission was keeping an eye, have been aggravated.

UBS had come off with no more than a "slightly black eye", Mr Nikolaus Senn, chairman of its executive board, said. Increased brokerage fees offset some of the book losses on securities holdings, and no major bank is in serious trouble.

Even if the banks, at the beginning of the year, had not anticipated a crisis, conservative management practices would have cushioned them against it.

At the end of 1984 the big banks' debt exposure to Latin America amounted to only 3.5 per cent of total assets and some 50 per cent of (understated) shareholders' equity.

After a nudge from the Banking Commission, the banks made extra provisions equivalent to 20 per cent of the debt. This year provisions have been raised to 30 per cent, at the same time as the banks' exposure has been reduced by the depreciation of the dollar and sales of some loans.

The uncertainties facing world banking have recently drawn analysts' attention again to hidden reserves, a form of prudence in which the Swiss banks excel.

Swiss National Bank capitalisation figures (*shown on page 2*) indicate that the disclosed reserves of Swiss banks in general are comfortably above the stipulated minimum.

Noting that it was in the interests of the banks to tolerate exaggerated market estimates of their hidden reserves, Scrimgeour Vickers, part of Citicorp's London operations, came up in a recent study with an educated guess that they amounted to 74 per cent of *UBS's published* equity, 63 per cent of SBC's and 52 per cent of Credit Suisse's.

In addition to the protection of substantial provisions and secret reserves, there are two other good reasons why the big banks are not switching to policies of retrenchment.

They are in the middle of substantial investments in third-generation computer technology, which helped to boost the ratio of administrative and personnel costs to gross earnings last year. Practice is to depreciate assets fully in the year in which they are acquired, so that gross margins are likely to shrink for a couple of years. The banks also expected to hire some 8,000 additional *employees this year.*

Secondly, the big banks have shown no inclination so far to retreat from the internationalisation of their operations.

If UBS - exercising prudence again - called off its bid for Hill Samuel, the London merchant bank, after a closer study of its activities, SBC staked out a small claim to part of the expanding French market by taking control of Banque Stern, a Paris investment bank, and Ducatel-Duval, a stockbroker.

In fact, recent analyses have highlighted how profoundly the deregulation of national markets and the big banks' decisions to fight for a share of the global market in London, New York and Tokyo have altered the operating premises of Swiss banking - without necessarily changing the basic conservative instincts of the bankers.

Under the influence of, chiefly US and British, institutional investors, the objective of conserving capital value has had to make room for maximising of yields in assets management, as competition for what was largely a Swiss preserve has stepped up.

A remark earlier this year by Mr Georges Blum, an SBC managing director, that some SFr1,500bn ($1,100bn) were under management in Switzerland, pierced the secrecy that has traditionally surrounded the size of the funds managed by Swiss banks.

In its recent study, Scrimgeour Vickers estimated that, at the end of 1986, portfolio funds amounted to SFr240bn at UBS, SFr220bn at SBC, and SFr200bn at Credit Suisse.

The sizes were "staggering", Scrimgeour Vickers commented, especially when compared with funds managed by American, British and French international banks. Translated into dollars, UBS managed $167bn of funds. Comparative figures were: $62bn for J.P. Morgan, $19bn (Societe Generale) and $14bn (Barclays).

When he offered his estimate of portfolio funds managed in Switzerland, Mr Blum cited four strategies the Swiss banks were following to cope with the changes imposed by internationalisation and to meet the foreign challenge. These were:

□ Building up brokerage facilities and offering portfolio services in other financial centres.

□ Greater use of technology for portfolio management, security transactions and trading, to the extent that clients will be able to alter portfolios from their home terminals.

□ Increased efforts to train personnel – the "big three", together with the Zurich investment banks, Julius Baer and Vontobel, have just started the Swiss Banking School; and in Geneva the private banks have inaugurated a banking institute, planned eventually to offer an MBA degree.

□ Keeping Switzerland's reputation free of scandals – the *convention de diligence*, the gentlemen's agreement under which banks undertake to make sure of the identity of their clients, has just been updated.

Mr Blum played down the influence of Swiss bank secrecy, maintenance of which Scrimgeour Vickers saw as the key to the future prosperity of the Swiss banks' fund managing.

On the domestic side, the bankers, after the October general election, reopened their campaign for the abandonment of Federal stamp duties on securities transactions. These levies, they complain, undermine Switzerland's capacity to compete as a financial centre.

The bankers have just been strongly backed by an exhaustive comparative study, **La Place Financiere Suisse*, by Professor Philippe Braillard, of the Graduate Institute of European Studies, in Geneva.

Professor Braillard concluded that the all-round efficiency of Swiss banking could be ensured only by modifying the Swiss tax system. He recommended gradual changes in the levies, but in particular the scrapping of discrimination against transactions in foreign securities.

Another controversial item of current debate is the Swiss corporate shares structure, which allows companies to hold off raiders by refusing to register shares. Sulzer, the engineering group, is the latest to use this device.

The anomalies in the shares structure were highlighted during the October crash, when prices of non-voting participation certificates widely held by foreign investors tumbled more steeply than prices of registered shares.

Monetary policy has also been focusing greater attention. For some years, the Swiss National Bank has comfortably met its low targets for the growth in the monetary base (giro accounts with the central bank and note circulation). With the help of the upward movement of the Swiss franc and improvements in terms of trade, inflation has been firmly contained.

From the middle of this year, the increase in the money supply started to exceed the very conservative 2 per cent target fixed by the SNB. The SNB increased liquidity somewhat during the October crash, and this month joined other European central banks in lowering by 0.5 per cent its discount and Lombard rates.

Growth in the monetary base this year is expected to be around 3 per cent, rather than the 2 per cent aimed for.

The adjustments to monetary policy are seen as Switzerland's modest contribution to stabilising dollar exchange rates and to expanding demand in Europe, as the US concentrates on cutting its budget deficit.

Nonetheless, they provoke worries about a revival of inflation in bankers and economists, who regard the price stability of the Swiss market in the last few years as an indispensable competitive advantage.

Most probably these worries will be contained as long as the *Swiss franc moves in harmony* with the Deutsche Mark and other European currencies and is not singled out by speculators as it was in 1978.

**Published by Georg, Geneva. An English edition will be available in January.*

John Wicks on the commercial banks

Taking the initiative

AT A time of constant change in the financial sector, Switzerland's banking system is proving that it can more than just cope.

The past 10 years in particular - starting with the cataclysmic "Chiasso affair" of 1977, and taking in political pressures at home, monetary unrest in the world at large and the almost complete transformation of the capital market - have called for major adjustments of banks' policies and philosophies.

The commercial banks of today, whose leadership has been passing increasingly into the hands of a younger and more internationally minded management generation, are very different organisations from those of the late 1970s. They have become more enterprising, while there are now fewer shrill arguments with such regulatory authorities as the Finance Ministry, the Banking Commission and the National Bank. Criticism from abroad - especially from the United States - has been largely stilled by greater Swiss flexibility in helping to curb abuses of banking secrecy.

This new approach has meant that the banks themselves have initiated steps to tackle problems. It was, for example, the Bankers' Association that signed a memorandum of understanding with the Securities and Exchange Commission in 1982 on the obviation of US insider dealing through Swiss banks.

The same body this July renewed - and strengthened - its good-conduct code for a further five years, even though the National Bank was no longer its "partner" in this agreement aimed at client identification and stopping the active promotion of fugitive-fund movements.

The less rigid stance of the banks has, in fact, saved them from further outside pressures. In Switzerland itself, Justice Minister Elisabeth Kopp has dropped plans to review the Banking Act, just as the electorate had earlier turned down the restrictions foreseen in the "banking motion". Abroad, Washington last month undertook to refrain from the sort of strong-arm unilateral measures against Switzerland that it had shown in the Marc Rich case.

Swiss banks have also shown themselves much more ready to adapt to new developments in the market place. This has meant a particular boost for off-balance-sheet financial services. While commercial banks continue to extend and modernise their credit operations, growth is now considerably more rapid in the non-interest sector. Commission-based business has also been the major key to recent expansion in foreign financial centres, chief among them London.

All this has been reflected in bank results. According to the National Bank, net profits of the banking system as a whole rose by 10.7 per cent to a record SFr4.1bn last year (excluding finance companies), with total assets up 9 per cent to SFr805.1bn. The commercial banks continued to be dominated by the Big Five - Union Bank of Switzerland, Swiss Bank Corporation, Credit Suisse, Swiss Volksbank and Bank Leu - which accounted for well over half the balance-sheet total and the overall net profits.

Business has continued to grow this year. In terms of published assets, the National Bank reports that the balance sheets of 71 banks (the Big Five plus cantonal and regional entities) were 10 per cent higher at the end of September than a year earlier, this, despite the marked fall in the dollar, though fiduciary funds continued to decline.

Balance sheets are only one indication of business development. With the increasing stress on non-interest activities, they are growing rather less rapidly than net earnings. As far as these are concerned, initial indications from leading banks are that 1987 profits should be as good as, if not better than, those for last year.

The bankers are, however, cautious about forecasting what might happen in 1988. The stock market crash is of the greatest possible significance to the banks, who act as stockbrokers, issuing houses and portfolio managers, as well as themselves being major participants in the capital market.

Additionally, of course, the less sanguine expectations for next year's economic growth could mean a general drop in demand for banking services. "We reckon with harder times in 1988," says SBC chief executive Mr Walter Frehner.

The mood at present is one of wait-and-see. In the stock markets, the banks themselves cannot do much to alter things, apart from using existing provisions to carry out a downward re-valuation of securities held. For the time being, there are no really serious problems facing the commercial banks at home, other than the unwelcome decision to grant interest on post office accounts; and the exodus of investors from shares has at least meant more money on hold with the banks or going into such fixed-interest paper as the banks' own medium-term notes.

This is far from meaning that the Swiss financial sector has completed its transformation. New liquidity rules come into force on January 1, for example, which enforce the availability of emergency in-house funds to cover any run on a bank before the existing "fire brigade" scheme can come into effect. The Banking Commission is pressing for an extension of the Banking Act to cover finance companies and - of greater importance for the banks - for equity-backing requirements in respect of off-balance-sheet commitments. The commission also seems to be making more use of its rights in acting against "unfit management".

In parliament, an anti-insider clause is growing closer to inclusion in the penal code, while the Government and a States Council commission want a change in the law governing banks' proxy votes at shareholders' meetings.

The banks also continue to carry out volunatry changes. Only last month, for instance, the big banks decided to open their permanent syndicate for Swiss-franc foreign bond issues, while the Association of Swiss Cantonal Banks spoke up in favour of greater co-ordination of its members' operations.

Though 1988 may turn out to be a "harder year", the commercial banks seem in good shape to handle such difficulties as may arise. This realisation ought, in time, to lead to an improvement of the current low level of the share index for listed banks.

Big banks balance sheet

September 30 1987 (SFrbn)

	UBS	SBC	CS	SVB	Leu
Total assets/liabilities	160.6	147.4	109.2	32.0	14.6
Selected assets:					
Customer lending	73.9	66.5	46.2	20.9	4.3
Due from banks	49.5	44.0	33.8	6.0	6.0
Selected liabilities:					
Customers' funds	91.7	92.2	66.7	25.9	7.4
Due to banks	46.4	36.8	29.9	3.5	4.8

Capitalisation of Swiss banks

(SFrm at end of the year)

	Big Five*			All banks		
	1984	1985	1986	1984	1985	1986
Paid-up equity	6,706	7,706	8,314	17,224	18,955	20,587
Capital callable from shareholders of co-operative banks	—	—	—	1,237	1,314	1,388
Local authority guarantees to district savings banks	—	—	—	101	106	110
Open reserves	12,918	15,582	17,781	22,606	26,134	29,583
Latent reserves†	4,319	4,754	4,869	6,744	7,521	8,100
Subordinate debt	2,214	2,758	3,242	2,824	3,250	3,840
Undistributed profits	46	54	60	206	335	376
Total capitalisation	26,203	30,856	34,286	50,743	57,615	63,954
Stipulated minimum capital	24,870	27,823	32,417	43,111	47,297	53,273

*Bank Leu, Credit Suisse, Swiss Bank Corporation, Swiss Volksbank, Union Bank of Switzerland.
†Reserves disclosed to tax authorities but not published by individual banks; they do not include undisclosed hidden reserves.

Source: Swiss National Bank

Foreign banks

Bank-like companies' striking increase

SWITZERLAND CONTINUES to draw a steady stream of foreign financial institutions, attracted by its reputation as a safe haven for foreign funds and its still profitable bond market.

The latest figures produced by the Association of Foreign Banks in Switzerland show that the number of foreign financial institutions had increased to 215 by the end of 1986, compared with 122 ten years before.

Yet more striking is the increase, within this total, in the number of bank-like finance companies. These increased from 81 at the end of 1985 to 90 by the end of last year, compared with only 24 at the end of 1976.

Bank-like finance companies have been the greatest growth area, since they are exempt from the fairly severe Swiss capital requirements for banks. The reason is that they do not offer themselves to the public as depositaries, but are defined rather as involved in selected forms of capital trading. This makes them much easier to set up than fully-fledged banks.

The main motivation for foreign banks to set up in Switzerland is the management of funds for private clients. Commerzbank, for instance, set up a branch in Zurich specifically for this purpose two-and-a-half years ago and is about to establish a further office in Geneva.

Despite the growing reputation of Luxembourg as an alternative haven for private funds, Mr Wolfgang Perlwitz, general manager of Commerzbank (Schweiz) says he finds private individuals continue to set much store by Switzerland's historical role as a secure and discreet financial centre. He says he is not aware of any clients who have chosen to switch funds from Switzerland to Luxembourg.

The predominance of investment advice and management as an activity of the foreign banks is reflected in the relatively small growth in their balance sheets over the last few years. At the end of 1986, the total for all foreign-controlled financial institutions' balance sheets was only 12.9 per cent of the aggregate balance sheet of the Swiss banking system. This compared with 11.4 per cent in 1976, and 14.1 per cent in 1984.

The bank-like finance companies in particular tend to be small institutions. For instance, Association of Foreign Banks statistics show that, of 112 Swiss or Swiss-based companies recorded during 1986, almost three-quarters showed total assets smaller than SFr100m.

In addition to private client business, a number of foreign banks are involved in foreign exchange dealing, although this tends to be a sideline. Their involvement in commercial lending is usually minimal.

Aside from these services, the foreign banks have come to play a significant role in the foreign bond market. The Japanese, for instance, have introduced a stream of their clients to the market.

Foreign banks play a significant role in the foreign bond market, but tend to steer clear of lead-management

They have, however, tended to steer clear of lead-management roles, although some of the subsidiaries of the banks have lead-managed straight bond issues for the companies for whom they act as guarantors in the Japanese domestic bond market.

But the great bulk of the issues for Japanese borrowers - a sector which usually accounts for around 30 per cent of total issuing volume - have been equity-related bonds, and these have very rarely been led by the Japanese securities houses. Rather, these houses have passed on the lead-management position to one of the Big Three Swiss banks - Union Bank of Switzerland, Credit Suisse, or Swiss Bank Corporation - which control the main bond issuing syndicate.

The reason for this appears to have been fear among the Japanese securities houses that, unless they did this, the Swiss banks might withdraw share buying orders from their offices in Tokyo. However, this worry must be diminishing now that a larger number of non-Japanese banks have gained seats on the Tokyo stock exchange.

Some of the Swiss banks are now applying for seats. It may be significant in the context of Swiss-Japanese financial reciprocity that Daiwa and Nomura became the first of the Japanese securities houses to apply for banking licences in Switzerland at the end of last month.

Other foreign banks active in the foreign bond market are HandelsBank NatWest, part of the National Westminster Bank, which runs the second largest bond issuing syndicate, and Nord Finanz-Bank, owned by a Scandinavian consortium, which runs another syndicate.

However, the role of these banks in the foreign bond market could become less significant as their syndicates have become less cohesive over the last few years - this year, for instance, Banca della Svizzera Italiana defected to the main bond issuing syndicate from Handelsbank's group.

At the same time, the market share of the foreign banks which do not run Swiss-style syndicates but put together underwriting groups on an *ad hoc* basis, such as the US houses and Warburg Soditic, has been increasing.

The German banks have played a relatively low key role in the foreign bond market, despite the inroads made by the Swiss banks - most notably CSFB-Effectenbank - in their own domestic bond market.

However, there has been speculation that Deutsche Bank (Suisse) may start to play a much bigger role if it decides to become the first foreign bank to join the main issuing syndicate, following a relaxation in its rules at the end of last month.

Deutsche Bank in August won the right to lead-manage an issue for its parent company within the framework of the big syndicate. This was described at the time as designed to increase the reciprocity between the Swiss and German markets.

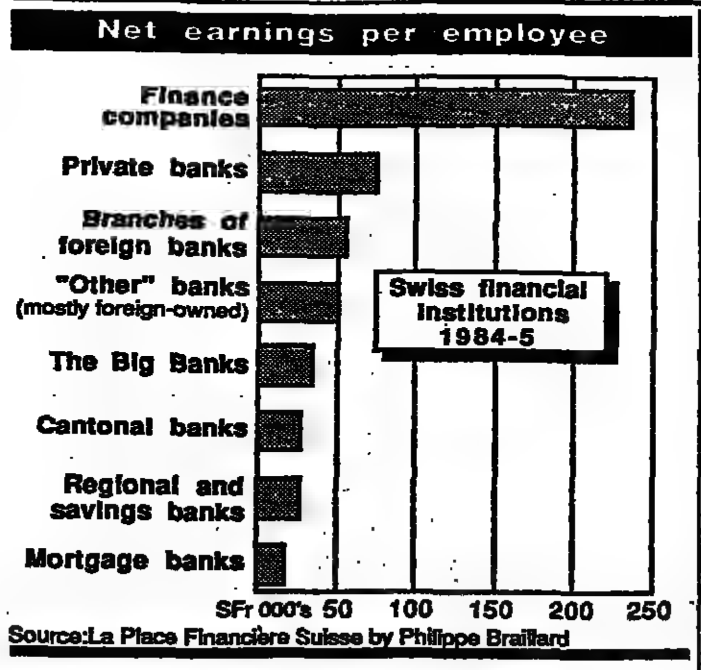
Difficulties in obtaining skilled staff continue to be a big worry among the foreign banks, because of Switzerland's stiff restrictions on work permits. Mr Perlwitz, of Commerzbank, says that, although he has found it possible to recruit fund managers in Zurich, "it is practically impossible to find back office staff".

The staff shortage has contributed to an upward spiral in salaries, which is said to be even worse in Geneva than in Zurich, because of the concentration of international institutions there.

The pressure created by the scarcity of appropriate personnel, coming on top of Switzerland's in any case very high cost of living, makes setting up a new operation an extremely costly business.

Mr Guy Huet, managing director of Morgan Stanley in Zurich, who has been busily recruiting staff this year for a trading operation which he set up in February, complains that salary levels are now twice as high in Switzerland as in New York.

Clare Pearson



Source:La Place Financière Suisse by Philippe Braillard

Finance companies

Variety is an obstacle to supervision

SWITZERLAND's proliferating finance companies may soon *have their tails nipped.* The Banking Commission, the Swiss National Bank and many Swiss bankers want them brought under tighter control.

They are increasingly seen as a way for foreign rivals, including banks, to circumvent reciprocity rules and to compete directly with Swiss banks in Switzerland without being subjected to regulations on capital and liquidity ratios.

However, would-be supervisors are having trouble, because the finance companies vary so widely in size and the nature of their operations that it is nearly impossible to categorise them.

Finance companies, established under Swiss corporate law, are subject to the Banking Act, if they seek deposits from the public. Only four do so.

Others, whose balance sheets are "*of a banking nature*", report their statistics to the Swiss National Bank in accordance with two articles of the Banking Act but are not otherwise covered by the Act.

Registering with the SNB allows the finance companies to participate as co-managers in issues of Swiss franc bonds for foreign borrowers, covered by SNB capital export rules. They are not, however, subject to supervision by the Banking Commission.

These "bank-like" finance companies grew in number from 58 in 1977 to 115 last year, and the Banking Commission estimates there will be 132 by the end of this year. Almost all the new ones are owned by foreigners, the Japanese influx having been particularly strong.

In addition, there is an unrecorded *number of finance* companies – "hundreds" the commission says – who do not report to the SNB.

The Commission estimates that roughly one-third of the *finance companies have* Swiss owners, one-third are controlled by Japanese and the remaining third by other foreigners.

Finance companies covered by the statistics exhibit a bewildering spectrum of size and activity. The biggest is Renault Finance in Lausanne, with assets of some SFr6bn. Essentially a holding company for Renault of France, it also conducts financial operations on its own account.

Sumitomo International Finance, in Zug, operates with a balance sheet of around SFr900m. At the other end of the scale last year, 16 finance companies reported assets of SFr10m *or less, two having no* more than SFr1m.

A characteristic of them all is that they carry out banking operations in competition with the banks proper, sometimes in partnership with individual banks. A survey conducted this year by the Association of Foreign Banks, which counts 44 finance companies among its members, found that they were engaged in practically all types of banking operations, apart from deposit-taking. The range *covered securities business*, including underwriting, credits, investment management, foreign exchange trading and other specialities.

Most foreign securities houses operating on the Swiss market have adopted finance company status. A recent count found 19 US brokers using this form.

Discussion about the finance companies has centred on three issues – unfair competition, circumvention of the reciprocity principle and their freedom from banking supervision.

One advantage enjoyed by the finance companies is illustrated in the table above. Not being tied to retail banking, they can operate with relatively few staff and achieve a far superior level of earnings per employee.

Statistically, it is more difficult to substantiate the argument that, because *they are not* subject to bank supervision and thereby to keeping fixed capital ratios, the finance companies represent bigger risks.

In its study, the Association of *Foreign Banks found that* the finance companies' disclosed capital and reserves ratios, averaging 13 per cent of total assets, were substantially higher than those of the banks – 7.8 per cent for all banks and 10.6 per cent for the foreign-controlled banks.

Averages, of course, can hide deficiencies in individual finance companies. The Banking Commission argues that, because their activities are often closely interwoven with those of the banks, the sudden collapse of an unsupervised finance company could set off a chain reaction among banks.

Reciprocity is a particularly *sensitive issue. Japanese banks* and security houses, for instance, can operate freely in Switzerland as finance companies, while Swiss banks have to hammer at the doors of the Japanese authorities to obtain permits to operate in Japan.

That comparison gives too straightforward a sheen to the issue. Foreign finance companies bring interesting business to Swiss banks. With their liberal outlook, the Swiss appreciate the importance of foreign competition in stimulating the efficiency of Switzerland as a financial centre.

But the Banking Commission and the SNB see a growing element of insecurity and risk in the proliferation of unsupervised finance companies, some of which have substantial business volumes.

The Commission wants to extend its supervision at least to the larger finance companies by imposing on them the requirement to obtain banking licences.

This could be effected by adapting regulations, rather than by amending the Banking Act. It could still take time. Swiss procedures are slow and the process of "consultation" has barely started.

William Dullforce

Profile: **Dr Markus Lusser**

New man may be tested early

THE STYLE, if not the policies, will change when Dr Markus Lusser takes over from Mr Pierre Languetin as President of the Swiss National Bank (SNB) next May.

That at least is the view commonly held by Swiss bankers. But at 56 Dr Lusser can look forward to an eight-year tenure, long enough to leave his mark on Swiss banking.

As an avid reader who cannot pass a bookshop without stepping in to make a purchase, he might also remind the bankers of the book critic's adage that style *cannot be divorced from content.* The bankers could be in for some surprises.

As the SNB moves into what may be a difficult year, Dr Lusser's mettle could be put to an early test. Under one not improbable scenario, the Swiss franc will appreciate further in the next few months and the central bank will come under increasing pressure to take a more expansionary monetary stance.

Under such circumstances Dr Lusser's trenchant style could influence markets' perceptions of the decisions taken. His German is more forthright than the carefully honed French of Mr Languetin.

Most bankers welcome Dr Lusser's appointment, but add some ambiguous riders. While hoping for firm guidelines from the SNB, they also voice the caveat *that it should stick to its last of* monetary policy, leave supervision of the banks to the Federal Bank Commission and not interfere with their business.

Dr Lusser agrees that it is not up to the SNB to monitor individual banks, but points out that monetary policy can only be effectively pursued through a well-organised banking system and efficient *markets.* "I shall certainly tell the banks when we think the markets are not playing their part," he said in a recent interview.

Already, as SNB vice-president, Dr Lusser has spoken out about what he regards as some outdated self-regulating arrangements in Swiss banking.

Not that he is promising or threatening change. On the contrary, he stresses the continuity *embedded in the central bank's* practice of entrusting policy to a three-man directorate, in which the president is only *primus inter pares.*

Swiss monetary policy is based on control of the *monetary* base (giro deposits and banknotes in circulation) to keep prices stable. This policy was finally consecrated in 1980 under Dr Fritz Leutwiler, then central bank chief, after a turbulent period *following the 1978 exchange rate* crisis.

It was Dr Leutwiler who brought *Dr Lusser* into the SNB directorate in 1981 - the first time the central bank had *recruited from the Bankers'* Association for such a top job. The two had worked closely on the *convention de diligence*, the gentlemen's agreement on bank conduct put together in 1977 after the fraud unveiled at Credit Suisse's Chiasso branch.

Dr Lusser's background and qualifications for the job are incontestable. He comes from the *small, mountain* canton of Uri, a founding member of the Swiss Confederation and home of William Tell.

Trained as a lawyer, he spent 20 years at the Bankers' Association, rising to managing director. *He was involved in the development* of Eurocheques and became chairman of Eurocard, Switzerland.

He does not see himself in the kind of international role played by Dr Leutwiler, who was chairman of the Bank for International Settlements when the international debt *crisis* erupted in 1982 and who had to contend in 1978 with a rush of foreign funds into Swiss franc holdings.

The franc is again under pressure, but this time it is not alone. Investors and speculators are turning also to the yen, Deutsche Mark and even other European currencies. "I am very happy if *the franc does not assume a special role,*" Dr Lusser says.

Nevertheless, he foresees problems. He assumes that currency fluctuations will continue and that the effects of the stock mar*kets crash in October have not* yet run their course.

These elements coincide with the introduction of new central bank prescriptions for bank liquidity. The first two factors would call for the injection of more liquidity by the SNB. The last means that the banks will need to hold less liquidity, although they will not change current practice overnight.

In any case, the SNB, whose 2 per cent target for the growth in the monetary base will probably already be overshot by 1 per cent this year, can expect pressure to be more expansionary in 1988.

For the SNB, much would then depend on how other European central banks reacted to similar pressures from their politicians and industrialists. "It would help us all, if the big three [the US, Japan and West Germany] co-ordinated their economic policies better," Dr Lusser comments.

It is widely assumed abroad that Switzerland, tacitly at any rate, pegs the franc to the Deutsche Mark. The SNB has always denied this. The SNB does not intervene on exchange markets to keep the two currencies in line, Mr Lusser says, but "we profit from the similarity of our central bank policies".

Both the SNB and the Bundebank give priority to achieving price stability. "The question is whether we can persuade all the industrialised countries that this remains the goal," Dr Lusser adds.

He is less concerned about the effect of the October stock market collapse on Swiss banking. Some banks suffered losses, but none was heavily affected and no major problems have arisen. Dr Lusser sees no reason to rush into re-regulation.

Recalling the depth of the single-day price collapses in October, he suggests that the stock exchanges might consider closing when an agreed limit for price changes is reached.

Capital cover for the expanding securities business and other off-balance-sheet operations of the banks has been a concern of the SNB for some time.

The good conservative Swiss practice of borrowing no more than half the capital placed in securities should become a common precept, Dr Lusser suggests. Otherwise, he believes Swiss banks should follow the prescriptions for capital ratios that will emerge from the Cooke committee working under the BIS.

Under Dr Lusser, the SNB will continue to be an ally of the banks in seeking revision of the government stamp duty on transactions in securities. But he appreciates the standpoint of Mr Otto Stich, the Finance Minister, that an alternative source of tax revenue needs to be found. "The President of the SNB must also want to see a balanced [state] budget," he adds.

As a first step, Dr Lusser thinks the Government could ease the levy on short-term paper, up to maturities on one year. This could gradually create the money market Switzerland now lacks. It would also offer the Confederation and the cantons more flexible financing, letting them distribute their debt between long-term bonds and short-term instruments.


Markus Lusser

Promoting Switzerland as a financial centre means encouraging foreign institutions to set up there, Dr Lusser is sure. The Swiss franc bond market, still one of the most important in the world, is open to foreigners.

Practically the only remaining restriction on the Swiss capital markets is the requirement that managers of franc bond issues be domiciled in Switzerland. This restriction relies on co-operation from other central banks. It must be maintained, as long as there is stamp duty on Swiss franc bond operations, Dr Lusser says. Otherwise the whole business would move outside Switzerland.

But other countries are progressively deregulating their capital exports and, sooner or later, "we will find that we cannot depend on co-operation from other central banks [in maintaining the restriction]."

The SNB has already warned the Federal Government that it must be ready to act, he says.

William Dullforce

Profile: Banca della Svizera Italiana

London milestone for growing Lugano bank

LAST MONTH Banca della Svizzera Italiana (BSI) started up operations at a new branch in London. This marks a further step in a long process of expansion for the Lugano-based bank, which feels it still has far to go.

BSI has come a long way since its foundation in 1873, when its main aim was to finance local investments in preparation for the opening of the Gotthard rail tunnel.

As its name suggests, BSI is the biggest bank with headquarters in Italian-speaking southern Switzerland. Originally formed by leading Swiss banks and Banco Generale di Roma, it played a key role in the development of Canton Ticino from the start, even issuing the local banknotes up until 1907.

Its growth over the past 20 years, during which published assets have risen tenfold to over SFr6.8bn, has reflected not least the rapid strengthening of the Ticinese economy.

With some 19 branches and agencies in the canton - apart from a 34 per cent shareholding in the Fidinam Trustee Group, of Lugano - BSI is far from having left home. For all that, it has been obvious for years now that there are clearly-defined limits to growth there. Ticino has only 270,000 inhabitants - and over 250 bank outlets - so there is hardly a need for new branches.

Over and above this, local business is expanding more slowly than in the 1960s and 70s. Ticino is no longer quite so fashionable as a retreat for the wealthy; it has not had much success in building up an industrial base (despite efforts by a BSI-backed industrial promotion unit); and greater stability in neighbouring Italy has sharply reduced the northward flow of fugitive monies.

BSI realised long ago that it needed a presence north of the Alps. It opened a Zurich branch in 1935, and became the first southern Swiss bank with a seat on the stock exchange. More recently, it bought Adler Bank (now Adler Change) in Basle, Banque Romande in Geneva and the personal-loan specialist Domus Bank in Zurich. The Lugano parent and these subsidiaries today together have operations all over the country.

BSI has rep offices in Hong Kong, Tokyo and Buenos Aires

At the same time, it began to carry out a gradual expansion abroad. The first move came in 1969, with the formation of what is today Banca della Svizzera Italiana (Overseas) as an offshore unit in the Bahamas.

The mid-1970s saw the opening of a representative office in Caracas and a direct branch in Nassau, as well as the acquisition of a 48 per cent stake in Cie Monagasque de Banque, of Monte Carlo, and 45 per cent in the Luxembourg-based Soc Europeenne de Banque. (Its partner in both these banks, Banca Commerciale Italiana, of Milan, owned 35 per cent of BSI's capital before selling this to the New York bank Irving Trust in 1983, incidentally).

Since then the foreign network has been extended further by the creation of rep offices in Hong Kong, Tokyo, Buenos Aires and London. The London office, opened in 1985, was the precursor of the new branch there.

While BSI keeps up its significant activities in Ticino - where, in April, it opened an international data-processing centre in Pregassona - its main Swiss thrust will be in other parts of the country.

According to the chief executive, Dr Giorgio Ghiringhelli, its national strategy outside the home canton foresees growth both on and off the balance sheet.

On the one hand, BSI wants to develop lending to what it calls "good-quality, medium-sized companies," as well as its trade financing operations and Domus Bank's consumer credit and consumer-goods leasing activities. On the other hand, non-interest business is to grow, particularly in the fields of portfolio management for institutional clients and foreign exchange.

Specific projects in hand within Switzerland in this connection are the creation next year of a financial-analyst team in Zurich, a foreign-exchange trading desk in Geneva (one was recently opened in Zurich), and a BSI branch in Geneva. This last unit is to concentrate on international business, while Banque Romande takes on the character of a regional bank.

Its international strategy, says Dr Ghiringhelli, will be targeted on three main centres. One of these is New York, where the branch recently moved to new premises with twice the space. The plan here is fundamentally to build up business in the sectors where the branch is already active: money market, foreign exchange and trade financing services. (The branch also has a "very limited" credit portfolio and does some portfolio management). New York, where BSI additionally has an international banking facility, is now also to be the home of a regional office to look after the bank's operations in Latin America.

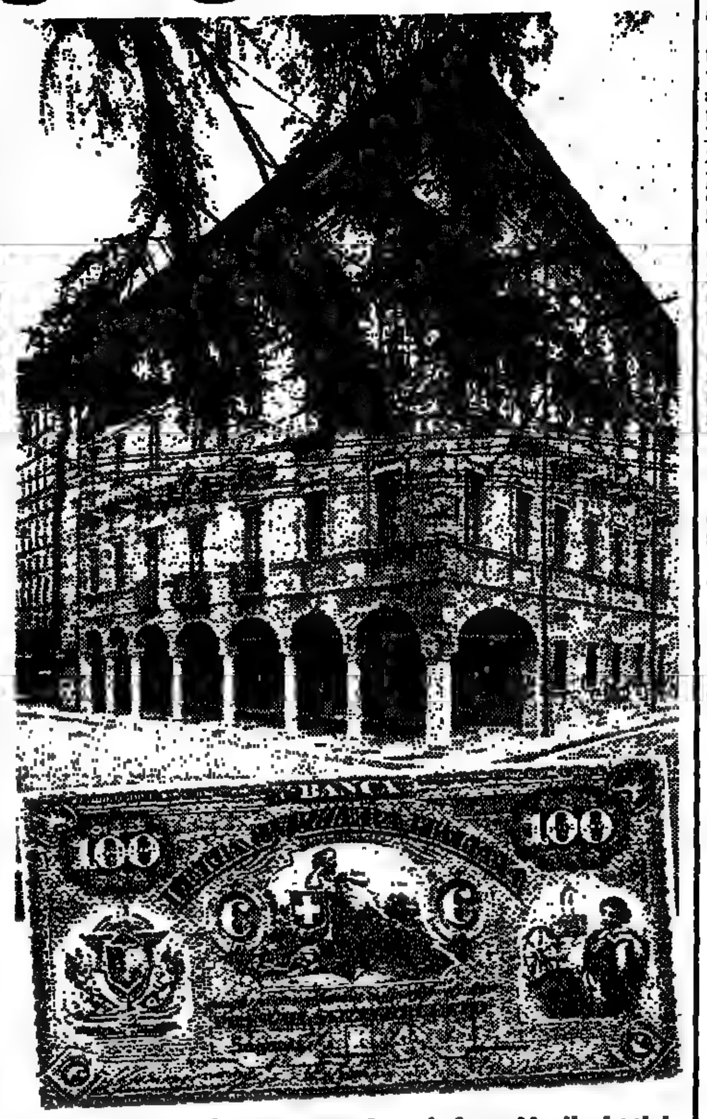
Another major foreign arm of the group is that of the new London branch. This will be active in three main areas - money market, foreign exchange business and trade financing, and portfolio management. There will also, but again only to a "very limited" extent, be some Eurobond activity there.

The remaining geographical region that seems promising to the Lugano bank is the Far East. It is considering opening a licensed deposit-taker subsidiary in Hong Kong in 1988, and has been looking at the potential of Japanese operations over and above its existing Tokyo rep office and a small service company helping European firms enter the Japanese market. For the time being, though, BSI will not by applying for a securities trading licence in Tokyo.

At present, there are no concrete plans elsewhere. However, Dr Ghiringhelli indicates that BSI - like some other Swiss banks - will be "looking at how to tackle the Italian market" if and when the expected liberalisation process takes place. Given the proximity to the frontier and the common language, the bank would seem to be a natural for this market, where it was active in the early years of its existence.

As far as its own foreign shareholder is concerned, Lugano headquarters does not seem unduly nervous about the current unfriendly takeover bid by Bank of New York for Irving Trust. The Americans are represented by three directors on the 12-man board and one member of the three-strong executive committee, but with only 25 per cent of voting rights this biggest single shareholder cannot be said to control BSI.

John Wicks



BSI's headquarters in Lugano...and a note issued by the bank in 1883, ten years after its foundation

Lessons are being learned in the wake of the stock market's fall

Foreign influence is confirmed

THE SWISS stock market suffered as heavily as Wall Street or London from the October crash, the Swiss Bank Corporation General Index tumbling by 30 per cent in one month from its peak on October 5.

In the aftermath of uncertainty, while world exchanges were waiting for the Reagan administration and the Congress to sort out the US budget problem and for the seven main industrialised countries to give policy signals, lessons were being only tentatively drawn from the Swiss experience.

On the technical handling of the crash in Zurich and Geneva, the most common judgment seems to be that it was a qualified success.

Improvisation by the Zurich exchange committee at early morning meetings during the crucial two weeks produced some controversial decisions but kept the system running.

Sessions were shortened for the 25 leading stocks which are traded continuously. The rule calling for a stop to trading in a stock whose price has moved more than 10 per cent in a session was temporarily dropped.

"Trading back", the possibility of returning to a stock passed when calling the list of non-continuously traded shares, was withdrawn. Some dealers blame this enforced "instantaneous" trading for the wild price swings in some stocks from one day to another.

Back offices in one or two banks reportedly clogged up under the volume, but on the whole the Swiss exchanges are reckoned to have preserved their reputation for quick execution of deals. Some big foreign investors nevertheless complained that they were not able to place orders.

The crisis brought an especially severe setback for stock prices, which had climbed less than 11 per cent in the first nine months

The extent of foreign influence on the Swiss market, vaguely acknowledged beforehand, was emphatically confirmed. For the past couple of years the number of transactions in foreign shares and bonds has surpassed that of Swiss stocks, although bourse statistics provide no breakdown by value and it is generally assumed that bigger deals are struck in Swiss stocks.

However, it was the growing foreign involvement in both types of stock, even more in Swiss shares, that was demonstrated during October. The plunge in Zurich was triggered by foreign institutions and portfolio managers wanting to go liquid after Wall Street's Black Monday.

Difficulties arose for those trying to pull out of stocks other than the top 20 or so which account for some three-quarters of total market capitalisation and are continuously traded.

Prices of non-voting participation certificates, which Swiss companies have issued in large quantities during the bull market and which were mostly held by foreigners, collapsed faster than prices of registered and bearer shares.

A second selling wave hit the Swiss exchanges a week after the first provoked by foreign institutions. The second was prompted largely by worries about the effect of the declining dollar on Swiss export performance.

However, it also brought to the surface the plight of newly established, heavily geared local securities houses, whose low equity bases forced them to start selling as prices continued to plunge.

Some of these had been founded by former employees of the big banks, keen to set up on their own and to exploit the opportunities for fund and portfolio managing under the bull market. Some had borrowed heavily and were particularly active in the market for bonds convertible into Japanese equities.

For Swiss stock prices the October crisis brought an especially severe setback, because - again under the influence of foreign hesitation - they had climbed by less than 11 per cent during the first nine months of the year, well below Wall Street and London growth rates. By the end of October the SBC General Index was 18 per cent below its year-end level.

The Zurich stock exchange reported a turnover of SFr64.4bn in October, up by 63 per cent from October last year, and a 40 per cent increase in the number of "prices paid". Its figures show a decline in the market capitalisation of Swiss shares, from SFr209bn at the end of 1986 to SFr187bn on October 31. The fall from the peak on October 5 was almost 30 per cent.

Issues under discussion following the events of the last two months include the liquidity of the Swiss stock market and the structure of Swiss companies' equities.

The market is relatively narrow, with 23 stocks accounting for 78 per cent of total market capitalisation. The vulnerability of recent attempts to broaden the range of stocks was demonstrated in October, when investors seeking to pull out of the smaller stocks were baulked by, among other things, a lack of liquidity on the market.

A coincidence of recent attempts to take over Swiss companies, and the collapse in prices of participation certificates during October, has brought to a head debate about the division of Swiss corporate equity capital between registered and bearer shares with voting rights and the non-voting certificates.

To protect their national identity, most Swiss companies have statutes under which they register only shares held by Swiss citizens, thereby limiting voting rights. Some can even limit the number of voting shares registered under one name.

Capital requirements are to a large extent met by issuing bearer shares with reduced voting rights and non-voting participation certificates. Foreigners invest in these papers.

The system conflicts with the requirement to have easily negotiable paper on stock exchanges, and has been an increasing source of irritation to foreign investors, not least the pension funds.

Last month the situation crystallised into an attempt to launch a referendum on shareholders' rights in the canton of Zurich. Behind the move is Mr Karl Schweri, owner of the Denner discount retail chain, whose prolonged bid to acquire control of Usego, a rival chain, has been thwarted by that company's refusal to register holders of shares it believed were acting for Denner.

Mr Schweri now has to collect enough signatures to force through a referendum. He argues that a company board's right to approve registration curtails market activities, thereby influencing share prices and affecting investors' rightful interests.

A parliamentary committee, studying amendments to Swiss corporate law, has also taken up the question of shares registration.

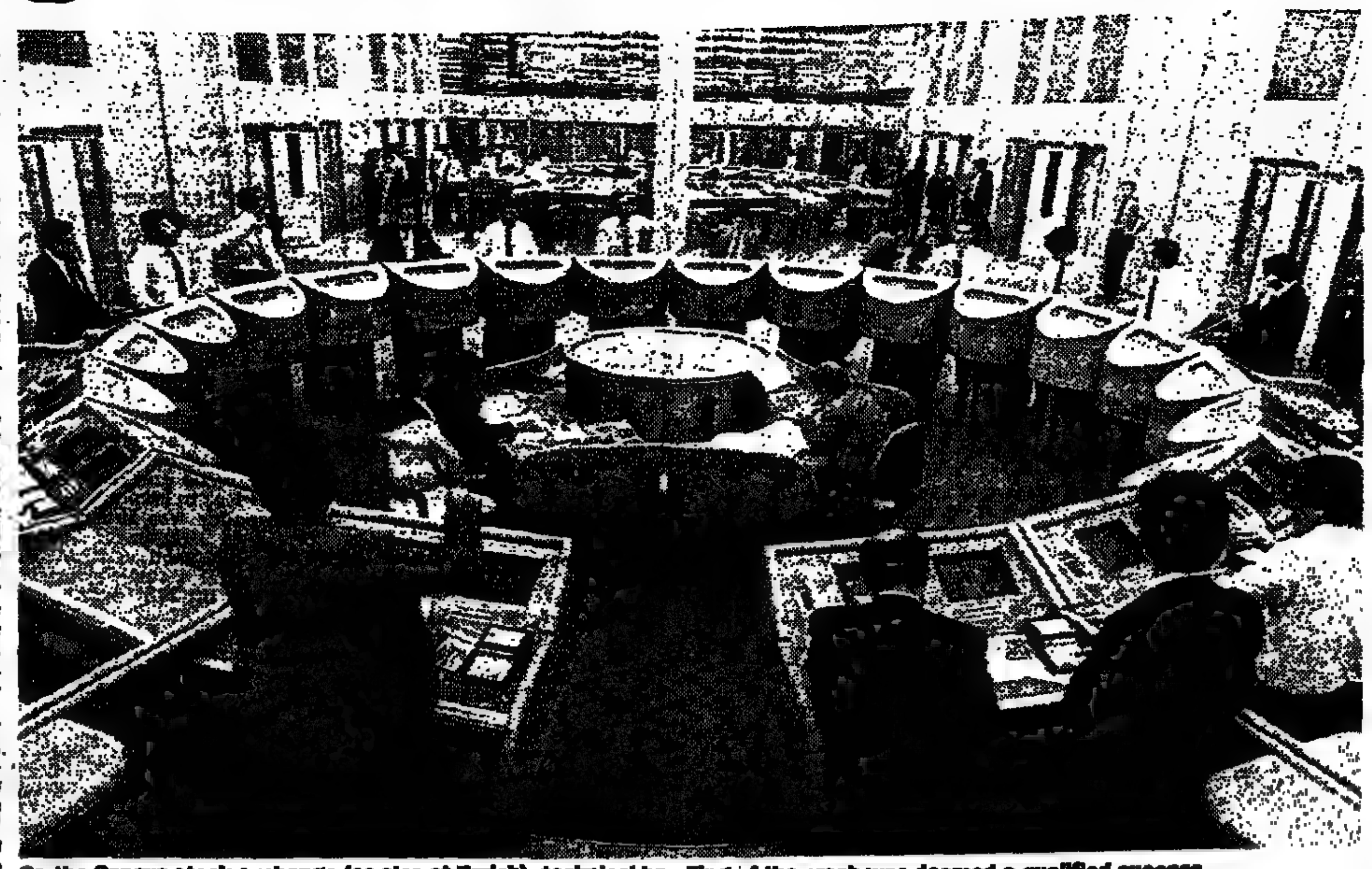
Currently market operators of all kinds on the Swiss exchanges appear to be happy to take a pause for reflection. A crucial question for the Swiss banks and other fund managers centres on the comportment next year of the foreign investors, in particular the big institutions who had "discovered" the Swiss market over the past three years.

Will the foreigners return in force after their precipitate withdrawal in October? Will the advantage of a strong Swiss franc and the solidity of the big Swiss companies efface the pain of the losses made on non-voting paper and the resentment at Swiss restrictive practices?

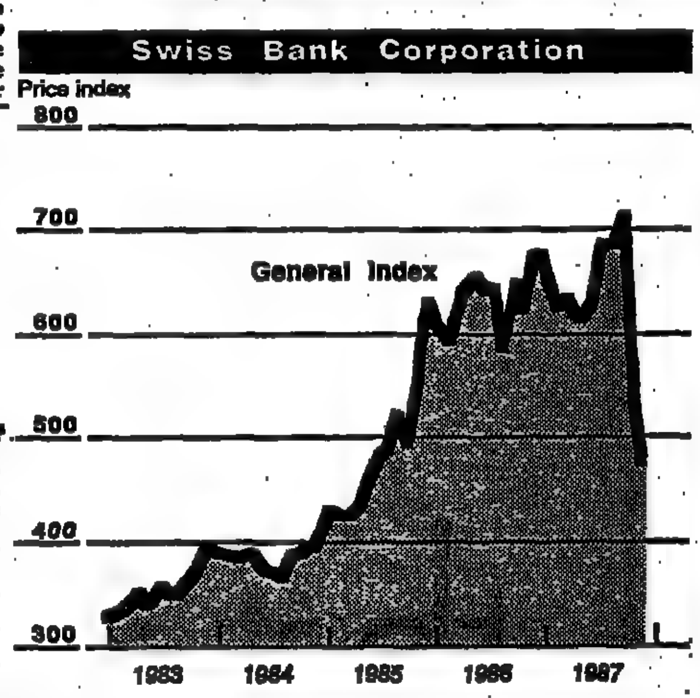
There is in any case no indication so far that the Swiss have stopped wooing foreign investors. Plans for automated settling and computer-assisted trading, though delayed, are moving steadily ahead.

A new Swiss share index, reputedly aiming at filling the lack of a universally accepted Swiss index, has been started. It precedes the launching next year of a Swiss Options and Financial Futures Exchange.

William Dullforce



On the Geneva stock exchange (as also at Zurich), technical handling of the crash was deemed a qualified success



Futures and options

Soffex will integrate trading and clearing

SOFFEX, THE fully automated, computer-based Swiss Options and Financial Futures Exchange, is due to start business next year. It represents a gage by the Swiss bourses and banks of their determination to keep a major European securities trading centre in Switzerland.

The five big banks and the three biggest stock exchanges - Zurich, Geneva and Basle - have invested SFr65m ($48m) to equip *Soffex. That does not* include staffing costs and spending on back offices by more than 50 members, which probably averages around SFr1m each.

Target date for the start of trading is March 1. There may be some slippage in the timetable - not all the members may be ready - but the simulation phase is scheduled to start in January.

Fast development abroad of instruments for trading in shares options and financial futures was *finally* seen as a challenge for Switzerland, and the decision to act was taken at the end of 1985.

Both foreign and domestic pension funds had stressed their interest in Swiss options and futures. Optimising yields was taking precedence over preserving *capital, Mr Rudolf Mueller*, chairman of the Soffex executive board, explained.

Banks were competing for the growing part of savings under the control of institutional investors whose criteria differed from those of private investors.

"For Switzerland to maintain its superiority in international fund managing, our bankers and investment managers had to be given the modern instruments available to their rivals," Mr Mueller added.

A private company with an initial paid-up capital of SFr5m was set up by the Tripartite Bourse Association, Union Bank of Switzerland, Swiss Bank Corporation, Credit Suisse, Swiss Volksbank and Bank Leu. Arthur Andersen and Company was commissioned as project manager.

The result will be a tailor-made entirely computerised exchange in which trading will be effected through screens on an "electronic floor" covering the whole of Switzerland. The software allows orders and quotations to be entered directly into the trading system by use of keyboard and screen.

Soffex will differ from existing US and British futures exchanges by integrating the trading and clearing operations in a single automated system. The Frankfurt stock exchange is already studying whether it can use the Swiss software for its own new options and futures market.

Ensuring liquidity has been a matter of special *concern*. Liquidity on the Swiss stock markets is at a substantially lower level than that effective on American exchanges, and *Swiss shares have high market* prices.

Contracts of 100 shares common elsewhere would not work. Accordingly, *Soffex* will operate with 5-share contracts.

The Frankfurt stock exchange is already studying the Swiss software

Speculation started in Zurich that *Soffex might be postponed* after the October stock market crash and the accusations that programme trading on futures markets had exacerbated price fluctuations in New York. This was strongly denied by Mr Otto Naegeli, the project's managing director.

A measured start had, in any case, been planned for the exchange. It will open with options contracts on bearer shares and participation certificates of 11 Swiss stocks.

Four are banks - UBS, SBC, Credit Suisse and Volksbank. Two food stocks, Nestle and Jacobs Suchard, join the three big chemical companies, Ciba-Geigy, Sandoz and Hoffmann-La Roche; and the 11 is made up with two insurance stocks, Swiss Re and Zurich.

An index contract is envisaged in a second step to be followed eventually by financial futures. No timing has been given for these moves, so, as Mr Naegeli says, the exchange has time to look at the impact of futures trading on the recent stock market shake-out.

So far Soffex has 54 members, of which 17 or 18 will be market makers. In addition to the five big banks they include 11 foreign-owned banks and two branches of foreign banks. Members have to be subject to the Banking Act.

The *clearing house will have* 44 members, of which 13 will be General Clearers who can handle the trading of clients of non-clearing members as well as *their own and their clients'* trades. The others, the Direct Clearers, can only clear their own and their clients' trades.

Swiss conservatism comes to the fore in the guarantees demanded of the clearers. General Clearers have to show a minimum capital of SFr500m, the Direct Clearers SFr50m. In addition guarantee deposits of SFr5m for General Clearers and SFr1m for Direct Clearers are required.

The clearing house guarantees the transaction from the moment it has been cleared, the automated system matching *each trade and notifying* the trader or broker immediately.

Should a member fail, the safety net starts with his own deposit, his capital, then Soffex's *own reserves and in the last line* the guarantee deposits of all other clearers.

The way *for* Soffex has been prepared by the introduction of continuous trading on the bourses for the leading Swiss stocks and a new Swiss shares index, which should be capable of *calculating prices every three* minutes and eventually provide the base for contracts on selected indices.

An *intensive* training programme is being organised by the Soffex executive board. Since May, the International Futures and Commodities Institute of Geneva has been running a three-day "guided auto-training programme" in three languages (German, English and French) at four centres (Zurich, Geneva, Basle and Lugano).

Finally, the taxman has been kind. Stamp duty will not be levied on transactions in options and financial futures, nor will investors have withholding tax deducted from their profits.

William Dullforce

Profile: **Berne Stock Exchange**

International touch

SWITZERLAND IS a country where not only banks are thick on the ground. There are also no fewer than eight stock *exchanges, which in* a country of fewer than 6.5m inhabitants must be a per-capita record.

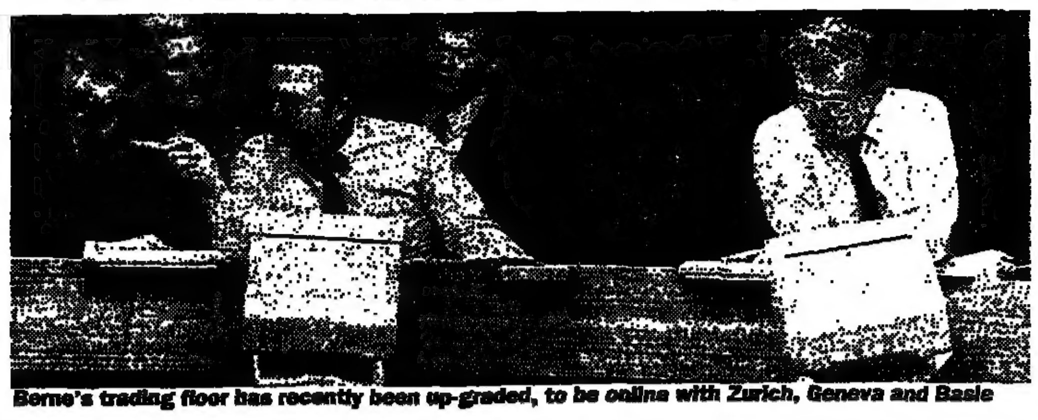
While only Zurich and, to a lesser extent, Geneva and Basle can be considered major-league players, some of the smaller bourses have been proving their *raison d'etre* for a hundred years or more.

One of these is that of Berne. Although the federal capital is not one of the country's leading commercial or industrial centres, it has a banking tradition that goes back to the early 18th century. It was the home of the first Swiss savings banks a few decades later, and of the first cantonal bank in the 1830s.

It is still the headquarters of the Swiss Volksbank, one of the Big Five. Shortly after the formation of the Association of Bernese Banks, in 1880, this body set up the Berner Boeresenverein for "the promotion of trading in bills of exchange and securities".

The new stock exchange *opened in 1885, in a very small* way of business. Nor did it grow to any extent in the years that followed: before the first world war, it was running with an average of barely 10 trades per day. It was *not* until relatively recently that things started to liven up.

*This has been the case particu*larly since about the mid-1970s, with the city's securities turnover having increased in only the past 12 years by something



Berne's trading floor has recently been up-graded, to be online with Zurich, Geneva and Basle

like eight-fold to its recent (pre-crash) level of a good SFr400m a month.

This is not wholly comparable with the figures of other Swiss exchanges - Zurich and Geneva, for instance, reckon all securities transactions taking place in their respective cantons - but it is certainly only a fraction of their activity.

In terms of listings, however, *Berne is far from a dwarf. These* today amount to 123 shares and 1,685 bonds. There is a definite international touch here, too, since 14 of the equities and no fewer than 769 of the bonds are non-Swiss.

The stock exchange premises, though housed in an *old-town* basement, are anything but provincial. They were modernised and expanded in 1972, and the trading floor has recently been technologically up-graded so as to be online with Zurich, Geneva and Basle. In fact, Berne was equipped with the Swiss RIS (*"ring information system"*) computer installation before big brother Zurich.

For all that, Berne is very much of a local institution. All of the privately-operated exchange's members - now 12, excluding the Swiss National *Bank as a non-trading extra* - have to belong to the city's bankers' association (though their number includes the local branches of three out-of-town big banks and an Amro subsidiary), while most trades are carried out for local customers. The member banks, not unnaturally, *do what they can on the Berne* floor to save on brokerage fees.

At the same time, an important sector of business is that in stocks from the region. These include some 16 mountain railways in main trading alone, as well as the equities and bonds of numerous banks, holding companies and industrials based in Canton Berne and nearby areas.

"This is something we really have to offer," says Mr Juerg Niederhaeuser, the stock exchange's *sole manager*. As things are, the trend seems to be for new issues to concentrate increasingly on the three main bourses, anyway. Mr Niederhaeuser *feels* that being a local exchange itself presents opportunities.

This could apply specifically in pre-market business, which, since the start of this year, have had a regular quotation list of their own in Berne. At present, pre-market trading lasts for only 10 minutes, shortly before main dealing starts at 10.45am - itself to run for only 30-45 minutes. In two or three years, the pre-market period might be extended for a few minutes.

Mr Niederhaeuser feels the Berne exchange has a particular role to play in the unlisted market. It now trades some 30 *unlisted equities, including those* of such fair-sized local groups as Galactina and Swiss Serum & Vaccine.

In fact, the region is achieving something of a name in this field. The Berne branch of Swiss Bank Corporation, for example, has become a substantial dealer in unlisted stock, where Volksbank Willisau in the neighbouring canton of Lucerne has long been the national specialist.

John Wicks

Geneva's Second Market

A gradual opening

EARLY NEXT year the Geneva Stock Exchange plans to open a new trading facility with its Deuxieme Marche. The first of its kind in Switzerland, this will have the same goal as France's Second Marche or the Unlisted *Securities Market in London* - to open up a new source of capital for small and new businesses.

Given the preponderance of modest-sized companies in the Swiss economy, there are only a limited number of firms that can come up with the *minimum* equity capital necessary for full *stock exchange listing*, even though this is no more than SFr10m in Zurich and only half that in Geneva. In 1985 a working party was set up in Geneva to address this problem by looking at the viability of a parallel market.

The final decision was in *favour of an institution of this* kind, the bourse authorities believing that the "legitimate needs" of young companies were not being met. The creation of a second market was given further impetus by the move last year into much roomier and more modern premises in the city's *"confederation centre"* and the introduction of computer-aided trading.

The Deuxieme Marche will start working as soon as enough candidates have been introduced by member banks and approved for listing. Mr Kurt Schneuwly, *director of the stock exchange*, points out that the market will doubtless take longer to get going than would otherwise have been the case, in view of the post-Black Monday weakness of the Swiss share index. In any case, though, he would like to see a "gradual" opening to business *with perhaps only* three to five equities traded.

Regulations for the operation of the market came into effect on November 1. These are aimed at providing investors with a maximum of information about the companies listed and affording the shares a large degree of *negotiability - something* the Geneva exchange feels has been a major failing of conventional venture capital financing.

Swiss companies must show a paid-up capital in the form of shares and/or participation certificates of at least SFr1m, and *foreign companies the equiva*lent of SFr2m. No less than 10 per cent of the capital - corresponding to a minimum of 5,000 shares or 10,000 participation certificates - must be issued on the Deuxieme Marche.

While the rules are intended to be flexible enough to meet the *requirements of fledgling compa*nies, they are such as to provide a serious guarantee to future shareholders. "Access to plenty of information" is a main feature of the new market, according to Mr Philippe Moser, the bourse's deputy director.

The new market will be quite *separate from Geneva's existing* "avant-bourse" for pre-market trading. Although this has just received a set of firm directives to succeed the *former unwritten* rules, it is still meant for companies which do not - or not yet - fulfil the criteria of the main or *second markets*. An *important* passage in these directive says that, while "the volume or liquidity" of such listing represent an interest on the part of the public or the stock market, "their admission does not constitute a value judgment in respect of either the issuer or the stock".

Pre-market shares thus do not have the same official standing or those in the two other categories, and are seen by the bourse as an "ante-chamber" for the principal or parallel market.

Not everybody in Switzerland agrees that there is a real need for a parallel market, however. Pre-market dealing plays an important role on the country's equity scene, and traditionally accounts for a considerable slice of total trading. Nor is it entirely "ante-chamber" business: Hoffmann-La Roche shares, for instance, are traded pre-market. *Swiss stockbrokers feel* that small or *new* stocks are quite at home in pre-market trading, particularly since this sets less demanding entry requirements.

The view of the Geneva exchange is that there is plenty of potential for future Deuxieme Marche companies, not least in *the French-speaking areas of* western Switzerland. At the same time, Geneva itself is in the process of becoming something of a Swiss centre for venture capital financing of various kinds.

The directives of the Deuxieme Marche also permit participation by *foreign companies. It is fore*seen that these would hail primarily from neighbouring France - for example, in the form of firms listed on the Second Marche in Lyons. But in time there could be interest from the USM or the parallel markets in Amsterdam or London.

John Wicks

Clare Pearson considers the foreign bond market

The 'big three' stage a comeback as issuing volume falls

HISTORY MAY regard 1987 as the year when the walls surrounding the main issuing syndicate in the Swiss franc foreign bond market finally began to crack - although not quite in the way that everyone had been expecting.

It had been thought that the cartel-like control that the Swiss "big three" banks - Union Bank of Switzerland, Swiss Bank Corporation, and Credit Suisse - had exercised for years through their control of the main syndicate would be undermined by the arrival of foreign banks.

However, though the main syndicate's share of the market had dwindled from around 95 per cent to about 60 per cent at the end of last year, this year has seen them make a comeback. So far, they have claimed about 70 per cent of the bonds issued.

This comes against a background of a slight downturn in total issuing volume. According to Credit Suisse, by the end of November only around SFr35bn worth of bonds had been issued, compared with SFr42bn as the year-end number for 1986.

The reason for the decline is partly that borrowers with weaker credit-ratings have become less acceptable in the market lately, and partly that swap opportunities into other currencies have been few and far between.

These factors have made it harder for the foreign participants to get mandates. This has left a bigger share of a diminished cake for the Swiss banks who have been the traditional lead-managers for most of the better-quality borrowers, such as the World Bank, many of whom are prepared to borrow Swiss francs outright.

So, ironically, it was in the context of an apparent strengthening, rather than weakening, in their position that the big Swiss banks chose at the end of November to relax some of the rigid rules of their bond issuing syndicate.

Why did they do it? An executive at one of the banks described the decision as an attempt to create "the best of all possible worlds". The changes, he hoped, would help to resolve

Hans-Joerg Rudloff: an old Euromarkets hand

discontents among member banks by allowing greater flexibility, but at the same time keeping the syndicate intact.

The main changes, effective in the new year, are as follows:

□ More members of the main syndicate will be allowed to lead-manage bond issues within the framework of the permanent syndicate, subject to the restriction that none of the big three had previously issued a bond for the borrower. (New issues at the moment are led almost exclusively by the three main banks.)

□ Other Swiss banks will b. invited to join, and this may possibly extend to foreign banks.

□ Members will not have to participate in all public bonds arranged by the syndicate, if they feel they are mispriced. (Previously, members were only able to do this on credit grounds, or in the case of bonds with special structures.)

□ Members will have more flexibility in using the reallowance - the percentage of a bond's fees that underwriters are allowed to pass on to institutional investors.

The big banks argue that these changes will make for a more orderly market, while at the same time getting rid of some of the most irksome restrictions on their members.

For instance, they argue that since one of the big banks may now turn down participation in a deal, this will put the borrowers, such as the World Bank, which rotate their mandates among the three, under more pressure to agree to a pricing representing a consensus.

Additionally, they say that banks will be less and not more inclined to get rid of unwanted positions in deals in the grey market (even though the reallowance relaxation makes it easier for them to trade in this market) because they will not be forced to take part in issues with whose pricing they disagree.

Foreign bankers have tended to take two views of the changes. Some say that so far from relaxing rules in the market, the changes will actually increase the control of the big three. Others, on the other hand, think their control may fall apart under their impetus.

In particular, some say the relaxation allowing syndicate members to turn down participations in bond issues will weaken the syndicate's bargaining position with borrowers since they will not be able to assure them that the syndicate will stand behind their issues.

The spur to this relaxation must have been internal disputes within the syndicate. For instance, bankers have noticed that Credit Suisse has been showing an increasing tendency to turn down public bond issues launched by the other two banks recently. This seems to be linked to the appointment at the beginning of this year of Mr Hans-Joerg Rudloff, deputy chairman of Credit Suisse First Boston, as general manager of Credit Suisse. He is an old hand of the Euromarkets.

Notably, this year Credit Suisse turned down participation in two public bonds: a SFr125m deal for the US company, Primerica, led by Union Bank of Switzerland; and a gold-linked deal for Olivetti, led by Union Bank of Switzerland.

In both cases, however, Credit Suisse was able to claim these decisions took advantage of exemptions within the existing rules: in one case it was taking advantage of the credit concerns loophole; and, in the other, of the fact that gold-linked bonds count as "special situations".

Some bankers have also focused on the relaxation of the reallowance rules. They say this will mean co-managers will be able, Eurobond-market style, to throw bond positions out in the market.

Looked at in this way, the changes would appear to mark a cracking in the cartel. However, others see them as primarily designed to lure new members into the syndicate. They note that the big three have not removed the rule prohibiting member banks from participating in bonds brought by other syndicates.

More banks might be inclined to join the big three because the requirement to participate in all the deals has been dropped. In practice, however, a bank that repeatedly turned down issues would be likely to find itself expelled from the club.

It will be interesting to observe which analysis of the rule changes turns out to be right. But it seems hard to imagine the big banks rapidly losing their hold while they still control 70 per cent of the new issues market, and are backed by their extensive retail client networks.

Overall foreign bond issuing volume this year has been slightly down, against a context of sharp swings in interest rates. Coupons on new five-year bonds have swung from 4¼ per cent at the beginning of the year to about 5 to 5¼ per cent just before the stockmarket crash.

Recently, however, Austria was able to issue a five-year bond with a 4¼ per cent coupon at an issue price of par, which met a good response despite initial concerns that it was too tightly priced.

At the end of last month, the largest ever deal in the public bond market emerged: a SFr400m 10-year 5 per cent bond for the Province of Alberta, priced at 100¼.

As in the domestic bond market, equity related bonds played a large role in the market earlier in the year. Amidst stockmarket euphoria, the first zero coupon convertible yet seen in the Swiss franc bond market emerged, for the Japanese real estate company National House.

The worldwide stockmarket crash is now likely to hit hard at Swiss franc foreign bond new issue volume. Equity related bonds for Japanese borrowers have traditionally made up a large proportion of the Swiss private placement market.

Stock and bond Issues

	August September			January-September		Change
	1986	1987	1987	1986	1987	
Switzerland[1]	SFrm	SFrm	SFrm	SFrm	SFrm	in %
Domestic issues[2]	10,246	555	1,257	8,032	8,528	+ 6
Foreign issues[3]	43,359	4,390	3,792	32,149	29,972	− 7
Domestic stock issues	6,141	51	295	5,242	4,597	− 12
Total	59,746	4,996	5,344	45,423	43,097	− 5
Euromarket[4]	$m	$m	$m	$m	$m	in %
US $ issues	114,280	6,202	5,801	89,100	56,073	− 37
DM issues	16,741	415	990	13,527	10,825	− 20
ECU issues	6,698	337	382	5,077	6,503	+ 28
Other issues	44,848	1,899	3,576	34,456	50,021	+ 45
Total	182,567	8,853	10,749	142,160	123,422	− 13
USA[5]						
Yankee Bonds	6,064	50	1,011	3,064	3,111	+ 2

[1]New issues (source: SNB) [2]Public issues [3]Incl notes [4]Source Euromoney [5]Source: OECD.
UBS Business Facts and Figures: November 1987.

Domestic bonds

Equities crash could bring investors back

ISSUANCE OF new bonds in the Swiss domestic market is currently running at around the same levels as last year, even though the Federal Government has become a net repayer of its debt.

That the public bond market has managed to sustain an annualised issuing volume of around SFr11bn is largely attributable to the growth in new equity warrants bonds, which accounted for at least 30 per cent of the bonds issued this year.

But following the events of October 19, equity-related bond issuance has dried up. This makes it extremely unlikely that the coming months will see the same momentum in the primary market, unless demand for fixed rate deals swells sufficiently to take up the slack.

The crash in the Zurich stock market was extremely severe. During October almost 27 per cent, or SFr65bn, was wiped off the capitalisation of the bourse - despite the relatively modest advance in share prices earlier in the year.

The question is whether the shock this has caused will trigger a return among Swiss investors, many of whom only started buying shares in recent years, to the bond market, which they have traditionally favoured.

Certainly, bankers report that pension fund managers have become extremely hard to persuade of the advantages of picking up shares at today's levels, however cheap they are.

Additionally, the few bonds that have emerged since the crash have been heavily oversubscribed. The cantons, who are some of the main borrowers in the market, have not been able to take advantage of this upsurge in demand, since they are prohibited from borrowing opportunistically and must cease when their requirement for the year is satisfied.

The only corporate borrower that has so far chosen to borrow in the straight bond market since the crash has been SMH, the watchmaker. Bankers say that this company is believed to have planned initially a pure equity, or equity related offering.

So it is at present extremely unclear how much issuing activity the next year will see. One Swiss banker said that he foresaw interest rates coming down, tempting companies into the market. But if the Swiss franc/dollar rate remains at current levels the export-related sector is likely to suffer, cutting down its capital investment, and therefore its appetite for new funds through bond issues.

In any case, issuance by companies is likely to remain low, since the Swiss corporate sector is largely flush with liqid funds.

There are, however, expectations that the Federal Government will issue a sizeable bond in the new year as it is repaying an existing issue.

The interest rates available in the domestic bond market are currently substantially better than they were in August and September, during the sharp upward movement in international rates prior to the stockmarket crash, although they are still below their best levels for the year.

There has been an unusual number of bonds linked to the price of gold

For instance, in January the going rate for a cantonal borrower was around 4 per cent, or slightly above, for 10-year funds. After that, yields rose but then reached a plateau during the summer months, which, combined with slender underwriting volume made for healthy market conditions.

However, during Switzerland's delayed reaction to the hike in international interest rates in the late summer, yields rose sharply. The average yield on federal government bonds soared from 4.13 per cent at the end of August to 4.33 per cent in mid-September. A 4 per cent Swiss Confederation bond was issued at a yield level of 4.29 per cent - despite the fact that its issue size was reduced to make it more palatable for the market.

Just prior to the crash, the city of Geneva paid 4¼ per cent on a bond priced at 101¼.

Bankers say that the rate on a new 10-year bond for such a borrower would be around 4¼ per cent again. The city of Zurich has issued a 7½ year bond through a tender system which was yielding at the beginning of this month around 4.15 per cent.

As is the case with many other markets, the Swiss domestic market has witnessed a "flight to quality" in reaction to the crash, which has considerably widened the yield differentials between bonds in the secondary market.

For instance, at the beginning of this month, an outstanding 10-year bond for Nordfinanz-Bank was yielding about 5⅛ per cent, while a bond for the Confederation of the same maturity was yielding about 3.7 per cent.

At the same time, investors, uncertain of the interest rate environment, have shown a marked preference for shorter-dated bonds.

Bankers are expecting a further easing in interest rates now that, in response to the crash, the Swiss National Bank has adopted a more flexible monetary policy.

However, they are not expecting a further sharp downward movement, given that the past year has seen a significant overshooting of the National Bank's original 2 per cent monetary growth target. Additionally, inflation was standing at 2 per cent during October, which compares with less than one per cent a year before.

The domestic bond market tends to eschew innovative issuing structures in preference for the "plain vanilla" straight bonds, deemed to be best liked by its investor base, and this year has been no exception to the rule.

However, there has been an unusual number of bonds linked to the price of gold. These were mainly issued during the spring when the dollar was in a sharp downward phase. Notably, Credit Suisse issued the first zero-coupon gold warrants bond, for the pharmaceuticals company Hoffmann-la Roche.

However, bankers say that these issues did not prove entirely successful. Many investors considered them too expensive, since the premia on the warrants were pitched at between 30 and 50 per cent. Additionally, the price of gold did not prove as volatile as the arranging banks had hoped, despite the whiplashing movements in the dollar.

Clare Pearson

Insurance

Belying the index

THE SWISS insurance and reinsurance business improved its results yet again last year, despite the unfavourable exchange rate environment, with both premiums and net earnings reaching new highs.

Although the Swiss franc has since strengthened even farther, leading companies are expected to finish up at least as well in respect of 1987.

Insurance is big business in Switzerland. This is due not least to the fact that the circumspect Swiss themselves spend large sums of money to guard against every kind of risk. Insurance premiums account for no less than 16 per cent of total household expenditure, according to government estimates, a higher share than goes on either rent or food. Excluding social security contributions, the average Swiss topped the 1985 world list with a per-capita rate of some $1,275.

At the same time, Swiss insurers figure among the major international operators. The Swiss Re group, for example, is second only to Munich Re as the world's biggest reinsurance company, and Swiss Life second only to Allianz in the European life assurance sector; while Zurich, Winterthur and Baloise belong to the household words of international insurance. In all, a good half of all Swiss private-insurance premiums is accounted for by foreign business.

As far as total values are concerned, the latest overall figure is of SFr50.4bn for 1985. This was made up of SFr13.5bn in the form of direct life assurance business, SFr25.3bn by direct non-life and SFr11.6bn by resinsurance. Within this total, premiums booked in Switzerland accounted for SFr17.3bn, those of foreign branches SFr17.9bn, and business by foreign subsidiaries for the remaining SFr15.2bn.

Everything points to further growth. While non-life statistics are not yet available for 1986, the Association of Private Life Assurance Companies (VPL) has just issued figures showing that the gross premiums of the 22 companies in this sector rose 9.5 per cent last year to SFr13.4bn. In the case of re-insurance, premium income of the seven largest Swiss specialist companies reached some Sfr13.5bn last year.

Annual reports from individual companies show that most leading groups increased their gross premiums in 1986. There are exceptions, however, including Swiss Re and Winterthur, and generally speaking growth

Swiss Re's Dr Walter Diehl

rates were down on the previous year. This was largely because of the strong Swiss franc, however, together with the minimal inflation rate and the fact that the life sector had experienced a particular boom in 1985 following the introduction of a new occupational pensions law.

While it is impossible to make anything like a reliable forecast in the insurance sector, in view of possible major claims, there are already indications that both 1987 and 1988 should be good years, too. In the longer term, a recent study by Swiss Re expects steady premium growth between now and 1992, by when life premiums are seen as being some 45 per cent higher than in 1985, and those for non-life coverage 43 per cent higher.

The encouraging news is less the growth in premiums – which in itself gives no real picture of future earnings – than the general improvement in underwriting results. Most major companies reduced their operating losses in the non-life sector last year, and seem to have been keeping them down during 1987.

There are a number of reasons for this. Primarily, premiums have at last been able to be raised in a number of problem branches and national markets, not least that of the US. At the same time, insurers are now reaping the fruits of having been more selective with regard to their portfolios. ("Turnover growth was not a general goal and was aimed for only in certain sectors," Swiss Re chairman Dr Walter Diehl said of his company last month). Also, international competition in many sectors seems to be getting rather less cut-throat, in part with some insurers quitting individual operations entirely.

Despite the still substantial underwriting losses in non-life, the companies' net profits continue to grow. In respect of 1986, Zurich, Winterthur, Baloise, Helvetia and Swiss Re were among those able to raise their dividends as a result. Life business of the composites and the life-assurance specialists had continued to show underwriting profits, while all companies benefited from a further increase in investment earnings.

For all that, the income from the industry's substantial invested capital is not a sufficient basis for corporate profitability. This has been shown clearly by the recent sharp decline of share prices. The January liberalisation of investment restrictions for the life sector no longer looks quite so attractive now that all attention is focused on old-time, rock-solid fixed interest securities.

Whatever the case, Switzerland's insurance industry is feeling pretty confident. Always excluding major disasters with resultant claim burdens, there seems no reason why overall profits should not keep at least close to their recent records.

With this in mind, it is hard to see why the index for insurance shares is more than one-third below its 1987 high, since it would take a real recession to do the companies any serious harm. A weak dollar does, of course, cut into profits - but it also reduces corresponding claims.

In the current period of investor insecurity, analysts are more and more recommending purchases of such first-class Swiss equities as those of the insurance companies. Admittedly, the yield is still no more than 1.8 per cent (at a price-earnings ratio of over 30 per cent), but this compares very well with the former level of under 1.2 per cent and just about covers domestic inflation.

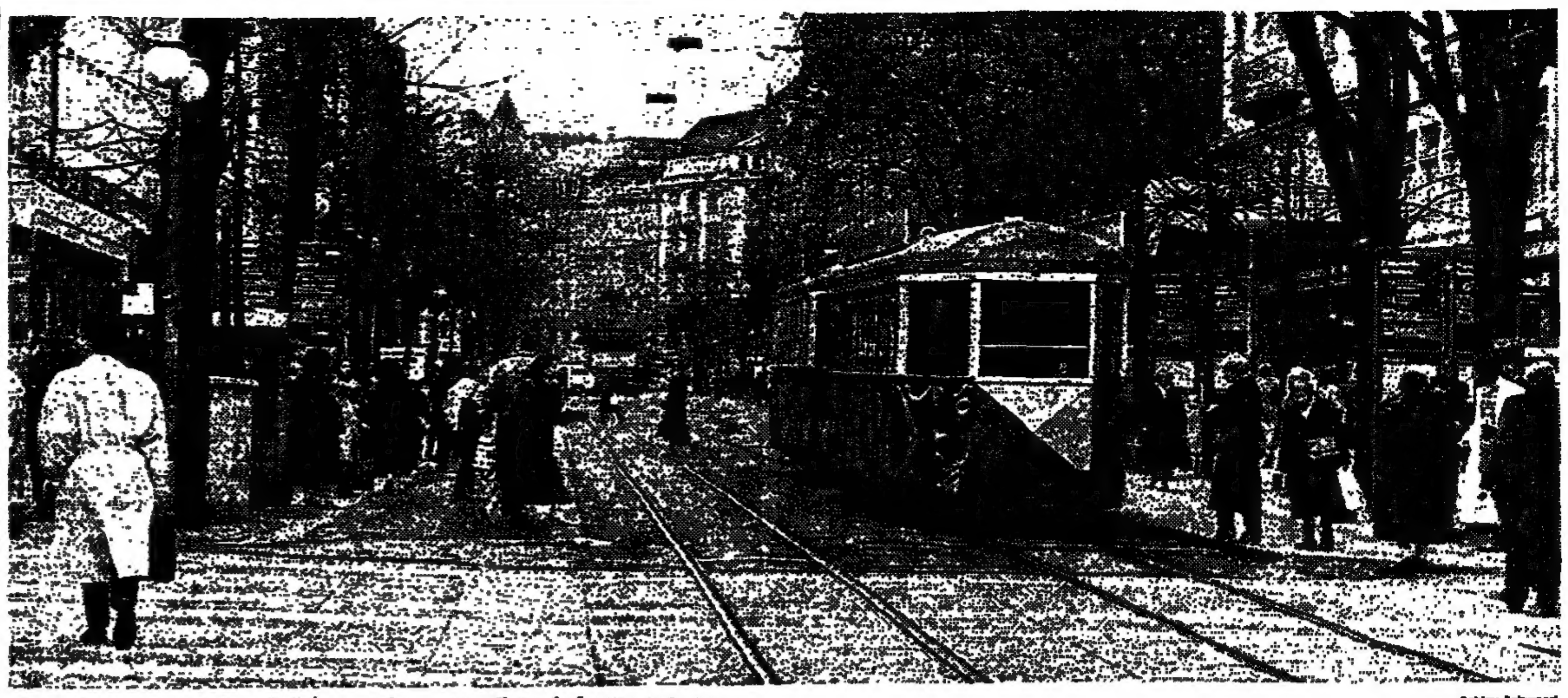
John Wicks

Insurance/ reinsurance groups

by gross premium income (SFrm)

	1986	1985
Zurich	11,758	10,863
Swiss Re	11,149	11,532
Winterthur	7,656	7,734
Swiss Life	4,364	4,066
Baloise	3,375	3,037
Helvetia	2,601	2,413

Source: SHZ, Zurich



Compulsory pensions have led to a service on new lines, but users are wary

Ashley Ashwood

Pension funds

Comparison prompts caution

THE WINDS of change are blowing through the traditionally ultra-conservative Swiss pension funds.

This year, the industry has for the first time been introduced to the performance comparison techniques that have become commonplace in the US and UK; this followed a move by the Swiss Bankers Association, in conjunction with Telekurs, the market information service, to set up such a system.

The impetus to this potentially revolutionary move was twofold. On the one hand, there was the 1985 legislation – the Occupational Pensions Act – which for the first time laid down compulsory pension fund membership for all employees earning over SFr16,560 in that year.

Although the increase in total pension funds under management as a result of the legislation was not great, it had the effect of focusing more attention on the business, most of which is in the hands of the banks and the so-called investment foundations, which manage portfolios for pension funds.

On the other hand, there were international pressures: the increasing sophistication of fund management techniques abroad. An official at the Swiss Bankers Association said that, as the desire to emulate Anglo-Saxon techniques grew, so too did the fear that, unless the Swiss themselves set up a system, a foreign performance comparison organisation, such as the US Frank Russell, would come and offer its services in Switzerland instead.

The Swiss Bankers Association said that, since the service was introduced in May, it had begun to receive data on between 40 and 50 portfolios. However, a number of funds have indicated that they will begin inputting information in the new year.

The system requires information on the funds to be input on a quarterly basis. The performance of the funds is then measured both by comparison with other funds, and by comparison with various indices.

The indices include the Geneva private bank Pictet's indices of Swiss and foreign bonds; and, for foreign shares, Morgan Stanley Capital International World Index. For Swiss shares, Telekurs has developed a new index, which now provides an alternative to an existing one developed by Swiss Bank Corporation.

However, it appears that, so far, the response from the pension funds to the new service has been cautious. As Mr Hans Steiner, pension fund manager at the Zurich-based Alusuisse, said: "We are at the beginning of a new era. But, like everything in Switzerland, the change will take place very gradually."

Mr Steiner said that, although he foresaw being able to take part in the project next year, he and a number of other managers were concerned that it was expensive and cumbersome, especially for all those funds that did not yet have computers.

Mr Stephan Steinmann, a director of Investmenstiftung fur Personalvorsorge (IST), an investment foundation, agreed. "I don't think it's been a very big success so far," he said.

It seems inevitable that there should be a cautious response to such a system when it is remembered that, until very recently, Swiss pension funds hardly thought of turning over their portfolios. As Mr Steiner summed it up: "Basically, the approach was to buy a bond and then forget about it for the next 10 years."

The bulk of pension fund money was traditionally – and still is – invested in property, mortgages, low interest bonds and loans to firms.

A study of the year 1984, for instance, showed that corporate pension funds had 39.3 per cent of their funds in bonds, and only 5.7 per cent in shares. Property and land formed 22.7 per cent of their investments, and mortgages 10 per cent.

Meanwhile, 55.6 per cent of public sector pension funds were invested in loans to companies, 15 per cent in bonds, and 10.9 per cent in property and loans. Investments in shares amounted to only 0.7 per cent.

The 1985 legislation laid down national rules on how funds were to be invested for the first time. For instance, funds are allowed to be invested 100 per cent in bonds, though the maximum amount in foreign bonds is 30 per cent. Their total investment in equities may not exceed 30 per cent, with an upper limit on foreign shares of 10 per cent.

Many of the funds were, in fact, allowed to invest in shares before this legislation, although comparatively few of them had taken advantage of it.

Unfortunately, many managers decided to take the plunge only shortly before the recent stock market crash. For instance, Mr Steiner said that, three years ago, only 2 per cent of his funds had been in shares, while now 10 per cent of his funds were invested in them. This meant that he was now looking at a discouraging book loss.

It is possible indeed that the crash will be a severe set back to the diversification of portfolios that had only just begun to gain ground in the Swiss pension funds. The value of IST's portfolio has itself fallen from SFr1.25bn to SFr1.05bn as a result of the crash.

However, Mr Steinmann of IST, is keen to invest more in Swiss shares at the new, cheaper levels, though he said he had found little enthusiasm among other managers for this point of view.

Mr Steiner's plan for the coming year is to go into mortgage lending in a big way. He believes his percentage investment in mortgages could rise to 25, as against 12 per cent at the moment.

Clare Pearson

Bank secrecy survives, in spite of some modifications

Still a marketable advantage

SWITZERLAND'S BANK secrecy has its spectacular side. Attempts by the new Philippine and Haiti regimes to recover loot allegedly salted away by former presidents Marcos and Duvalier, the Boesky and Levine insider trading scandals in New York, the laundering of drugs money and the use of Swiss banks in the Iran-Contra affair have all put it in the headlines over the past two years.

Needless to say, the ballyhoo is anathema to sober Swiss bankers. Yet the publicity has helped promote modifications to Swiss bank secrecy, which the big banks at least accept as inevitable, if they are to continue to be leading players on the global financial market.

Nonetheless, the quip now widely bruited abroad, that Swiss bank secrecy has been shot as full of holes as a piece of Emmental cheese, is misconceived. Remember what the Swiss say about Emmental imitators: "Anyone can make the holes, but only the Swiss can make the cheese."

Under pressure from other governments, principally the US, the Federal Council and its Justice Department are introducing laws and practices that make it easier and quicker for foreign authorities to obtain from Swiss banks the information they seek to help prosecute cases in their courts.

But the Swiss have not caved in. On the contrary, by patient negotiation they have persuaded the Americans to show more respect for Swiss legal perceptions.

Bank secrecy has been eroded at the edges; some of its murkier aspects have disappeared under exposure. Yet because of the fundamental respect for private rights written into Swiss laws, and because of Swiss refusal to regard tax evasion (as distinct from tax fraud) as a crime, secrecy still gives Swiss banks a marketable advantage over banks in other financial centres.

Events this year have included the signing of yet another memorandum of understanding with the US, the near completion of the passage through parliament of an insider trading bill, and publication of a draft law penalising money laundering.

In addition, the Bankers' Association has introduced a new version of the *convention de diligence*, the gentleman's agreement under which the banks undertake to ascertain the identity of their clients and to prevent bank secrecy from being exploited to hide criminally acquired funds. Revision of the convention had been necessitated by the National Bank's decision to withdraw as referee.

Mrs Elizabeth Kopp and Mr Edwin Meese: new guidelines

The request for legal assistance in the Irangate case, filed in Berne by the US last December, provoked some ironical comment among bankers. It was allegedly servants of the very administration that had been pressing Switzerland to ease its secrecy rules who had taken advantage of that facility.

Relations with the US over legal matters, however, entered a calmer phase this year. In Washington in November Mrs Elizabeth Kopp, the Federal Justice Councillor (minister), and Mr Edwin Meese, the US Attorney-General, signed a memorandum spelling out new guidelines for granting legal assistance.

Basically, the US agreed to work through established channels and to avoid "unilateral compulsory measures" while the Swiss authorities undertook to speed up procedures. US courts and prosecutors have been infuriated in the past at having to wait years to get their hands on key documents, as opposition lawyers mounted successive appeals in Swiss courts.

The Swiss, by patient negotiation, have persuaded the Americans to show more respect for Swiss legal perceptions

Commonly lawyers have appealed on the ground that vital Swiss interests would be violated. Now only Swiss citizens, permanent Swiss residents or owners of Swiss companies will be able to use this argument. Moreover, appeals must be lodged within 10 days of a judgment.

On the other hand, in the latest memorandum the US authorities undertake to use the agreed procedures in asking for legal assistance and to use their "best efforts" to avoid "unilateral compulsory measures". Instead they will apply "moderation and restraint".

This should mean in practice that US courts will be advised not to impose fines on, or seize the assets of, Swiss banks and businesses in the US, in attempts to speed up the procurement of documents from Switzerland. The Swiss regarded such action by US judges as an infringement of Swiss legal sovereignty.

Improvement in the legal climate between the US and Switzerland over bank secrecy also extends to insider trading. An amendment to the Swiss Criminal Code, making insider trading a criminal offence, is virtually certain to come into effect next year. In October, the lower house of the Swiss parliament passed, with minor modifications, a bill earlier approved by the upper house. The two chambers are expected to iron out the remaining differences.

The *amendment to the code* calls for prison sentences of up to three years and fines for people who themselves gain from, or help others to profit from, confidential information about transactions on stock markets.

It should close the gap between earlier Swiss perceptions of what was permissible and the contention by the US Securities and Exchange Commission that, by using Swiss banks as intermediaries, investors could exploit insider information on US stock exchanges while remaining immune from US penal action.

Swiss legislation on insider trading was certainly accelerated, if not prompted, by the quarrel over the Sante Fe case which erupted in 1981. Then, the SEC alleged that shares and call options to stock in Sante Fe International had been bought through Swiss banks just before its merger with the Kuwait Petroleum Company was announced. The SEC had to wait nearly three years to acquire the evidence it needed from Switzerland.

Swiss bank secrecy is famous or infamous, according to the observation point. The Swiss argue - and really believe - that the pejorative label is unwarranted, especially after the greater readiness they have been showing to co-operate in releasing information to foreign courts and government agencies investigating criminal activities. Bank secrecy has not prevented the Swiss from co-operating effectively in some recent drug trafficking cases.

But privacy remains an enforceable right under the Swiss Civil Code, and the principle of "double criminality" still applies to foreign requests for legal assistance. The offence must be a crime under Swiss law as well as under that of the country seeking aid - and in Switzerland mere tax evasion is not a crime.

William Dullforce

Venture capital

More help available for the new boys

FOR ALL its multi-nationals, Switzerland is basically a little-man' economy. Latest government figures show a total of 7,950 "industrial units" in operation, of which almost two-thirds have a payroll of fewer than 50 employees.

Given the additional fact of extremely high wages, and the resultant need for constant innovation, there would seem to be a corresponding demand for venture capital.

Despite this, there has as yet been no real development of a conventional venture-capital market in Switzerland. Generally speaking, the Swiss investor is hardly very risk-minded, quite apart from the fiscal disadvantages of a system which taxes both company and shareholders.

The Swiss Venture Capital Association (SVCA) says that, in the year ended June 1986, some SFr114.5m was invested by "Swiss venture capitalists", or some 20 per cent more than during the preceding 12 months. At the same time, the average investor in this category is said to have increased the number of projects financed from three to five over the same period.

The SVCA survey, carried out this autumn, shows a total of 114 projects in all, making an average investment sum of almost exactly SFr1m. Of the total investment, some 55 per cent financed the creation of the "initial development phase" of a company; 20 per cent subsequent *capital* requirements; and the remainder such "divestment" transactions as bridging financing, sell-outs and buy-outs.

While these figures may seem on the modest side for such a highly-industrialised and wealthy country, there is a numerous and growing range of channels through which small-scale and start-up businesses can obtain outside funding.

As is usual in Switzerland, the state plays only a minor role. This would have been rather different had the electorate not rejected a government plan for an innovation risk guarantee scheme at a 1985 referendum. Apart from granting loans and subsidising interest costs, this would have put projects on a stabler footing by operating an insurance scheme to provide partial coverage of any losses.

The Federal Government does, however, continue to give financial aid to small-business ventures in economically troubled regions like the Jura; this, apart from a special guarantee programme in mountain areas.

While the innovation-risk idea was thrown out - largely due to the traditional fear of government interference in business - it focused attention on the whole question of the availability of capital for new projects.

The SVCA had already been launched in Berne in 1984, to further the concept of venture capital in the light of the "third industrial revolution". More and more banks and other private bodies started to look at the matter more closely.

The Federal Government continues to give financial aid to small-business ventures in economically troubled regions like the Jura

The Swiss Association of Commerce and Industry (Vorort) says there are today some 50 banks, holding companies, semi-official entities and private investors specialised *either in* corporate finance with a venture-capital element or in the introduction of new companies to the stock market. According to Vorort secretary Dr Rudolf Walser, some of these "offer complete financing systems, from the formation of a company through to its going public, which would hardly have seemed possible a few years ago".

The excellent conditions on the Swiss stock market, until the October crash, made it very easy for even small and hitherto little-known firms to issue equity. Vorort says that in 1986 alone companies with fewer than 500 employees raised a total of some SFr200m in the form of shares and participation certificates.

When they reach a certain size, many up-and-coming firms get a place on the pre-market list of the various Swiss stock exchanges. Some of them subsequently graduate to a full listing; others prefer to remain where they are. There has been - at least, until the aftermath of Black Monday - a growing interest in unlisted stock among investors. Next year, the Geneva bourse is to start up a parallel market *similar in aim to the* unlisted securities market in London, though this seems unlikely to set a trend.

The banks have been playing a particularly important role in the provision of venture capital. Some of these are cantonal institutions with an understandable interest in local business, among them Gevneva's two cantonal banks with their "Gesplan" programme and Banque *Cantonale* du Jura. Big banks are also taking part - such as Union Bank of Switzerland, through its Zurich subsidiary Eidgenoessische Bank; or the "special financing and corporate advisory team" of Swiss Bank Corporation, which has provided venture capital in 14 of the 35 financing applications (worth SFr51m) *it has approved to date.*

Even foreign firms are in on the business, examples being: the setting-up in Geneva of the continental headquarters of London's Baring Brothers, Hambrecht & Quist (BBHQ), and the American Express bank subsidiary Amtrade Partners, also in Geneva.

Geneva is, as the Zurich newspaper Tages-Anzeiger said recently, *becoming something of* a Swiss venture capital centre.

One thing is not intended to happen. As important as the equity positions of the banks may be for the new companies, they are not to become permanent fixtures. The Swiss Bankers' Association spelled this out in its latest annual report by writing: "In principle, every direct participation of banks in a company can and should be of a temporary nature only."

The individual banks agree. Swiss Bank Corporation doubles up by saying: "Since we are of the opinion that banks should only hold long-term equity outside the banking sector in exceptional cases, we support the fostering of liquid markets in venture capital paper outside the stock exchange."

John Wicks